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AMERICAN BANKERS ASSOCIATION JOURNAL

# The New Plan of Investment Savings

**How An Ohio Savings Bank Is Moving to Meet the Competition of the Building and Loan Associations for Savings Accounts. Higher Rate of Interest Paid In Return for Sacrifice of Right to Withdraw at Will. Slow Deposits to Offset Slow Loans.**

A PLAN designed to enable savings banks to meet the competition of building and loan associations for savings accounts has just been introduced by an Ohio bank. On July 1, the Dollar Savings & Trust Company of Youngstown, inaugurated a new department called the Investment Deposit Department and offered to pay a 5 per cent rate of interest on funds deposited in it. This is 1 per cent more than the rate given on strict savings accounts.

In effect, the bank adopted the principles of the building and loan associations and started a new department within the bank that will operate along similar lines. By virtue of the fact that it may carry a much smaller reserve and will not have to keep its funds in a liquid condition to pay off the depositors as the demand is made, the bank calculates that it can afford to pay the additional interest. From the standpoint of safety, the innovation should make a strong appeal to the savers because the entire resources of the bank stand behind the accounts.

### *Slow Deposits to Offset Slow Loans*

WHILE the immediate cause of the new department is the desire of the bank to compete with the building and loan associations, A. E. Adams, the president of the bank, has maintained for many years that the banks should change the nature of their operations so that slow loans will be offset by slow deposits. In this sense, the introduction of investment savings accounts is the outgrowth of the realization that savings banks must prepare to handle slow credits.

The problems confronting the savings bankers in Ohio are not unlike those in many other states for the building and loan associations during the post-war construction boom have made such strides in some states that they now have more assets than the savings banks. They have offered rates of interest that savings institutions, with the necessity of maintaining legal reserves and meeting higher overhead expenses, cannot match and conduct banking consistent with sound principles. The higher rate paid by the building and loan associations has been offset by the inability of the depositing members to withdraw at will and the greater security of funds intrusted to savings banks. But, nevertheless, the building and loan associations now have more than four billion dollars in assets as compared with $1,137,000,000 in 1913.

The Dollar Savings & Trust Company plans to deal with the situation in a direct manner so that the customers will readily understand the plan, and know, at the outset, that their money is in an investment—not a strict savings account.

> ## Slow Deposits Plan
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> *THE "most forward-looking step that has been taken in banking circles in over forty years" is the way that one of the highest authorities on banking matters in the United States characterized the investment savings plan just introduced by an Ohio bank. In the accompanying article, A. E. Adams, president of the Dollar Savings & Trust Company, tells how his bank set up a new department to meet the competition in Youngstown growing out of the activities of the building and loan associations. Savings bankers throughout the country, perplexed as to how they will meet similar situations, will find much to interest them in this plan of handling the slow credit problem.*

### *Segregating the Money*

"USING the familiar plan followed by building and loan companies, we are accepting in this department deposits which are to be subject to an indeterminate notice of withdrawal," Mr. Adams states. "We segregate all of the money and securities belonging to this department, and our contract with the depositor is that he is to be paid only out of these segregated items. Our practice will be to pay on demand whenever there is money in the department available for that purpose, and, whenever there is not, to require the depositor to wait until some of the loans, in which his money is invested, are collected. We will carry no cash reserve in this department except the 3 per cent minimum required by the Federal

Reserve Act and the little additional which may be needed for counter uses. This will permit us to invest substantially all of the money received in this department and keep it invested all of the time.

## *Require Indeterminate Notice*

"WE do not believe that it will be necessary for us to exercise our right to require this indeterminate notice very often, for, outside of periods of very tight money, fluctuations in a line of deposits of this type are very small. But we will not hesitate to require notice whenever there is occasion to do so. Furthermore, we will determine what constitutes an occasion solely by the condition of the department and may require the notice even when we are carrying a good deal of idle money in other departments as reserve against other classes of deposits.

"These facts we are emphasizing in our advertising and in our talk with customers. We are making it perfectly clear to everyone, who deposits money in this department, that he is making an investment rather than an ordinary bank deposit and that surrender of the right to withdraw at will is the price he pays for the additional rate of interest offered.

"All of the resources of the bank are behind these deposits just the same as other deposits, but under the rules which constitute our contract with the depositor, none of our resources except those in this segregated department can be reached by the investment depositor under ordinary conditions. If the bank were to go into liquidation the investment depositor would have the same rights as other depositors.

## *Plan Carefully Considered*

"WE discussed this plan with a great many of our banking friends before starting to try it out. The consensus of opinion was that while it was sound it would not attract business; that people would not put money into a bank under conditions of this kind. We did not believe this was true because for many years people have been putting money into building and loan companies under exactly the same conditions, the only difference being that the building and loan companies have not made the facts quite so plain.

"What little experience we have had seems to prove that it is not true. In the first five business days that the department was in operation it opened 350 accounts and took in $700,000 in deposits. This, in view of the fact that Youngstown's population is only 150,000 and that we can not draw much business from surrounding territory because of the competition of Cleveland and Pittsburgh, would seem to indicate that people are not only willing but glad to do business under these conditions, when assured of safety and a satisfactory rate of interest.

"The truth is, no doubt, that since the organization of the Federal Reserve Banks there has been a change in the attitude of the public toward banks in general and that, whereas the average depositor formerly held the right to withdraw on demand as of first importance because it might prove a protection, he today regards it of secondary importance because he feels he is fully protected without it. However this may be, we ourselves have as yet been able to discover no hesitancy on the part of the depositor—this in spite of the fact that we have consistently and persistently overstressed the indeterminate notice feature of the plan.

## *The Moving Causes*

"WE have been moved to inaugurate this department by two principal causes. The first is the competition of building and loan companies. In Ohio fifteen years ago, building and loan companies held less than one-fourth of the money savings of the state. Today, they hold more than one-half and are growing more rapidly than ever before. More than this, many of these institutions are highly creditable and have won and deserve the complete confidence of the public. The right to require indeterminate notice makes them impregnable when they are wisely and honestly run. Banks must pay virtually on call and, for that reason, carry a substantial reserve against their deposits. They can not compete with these institutions unless they adopt some such plan as the one we are trying out.

"The second cause is the fact that we are finding it increasingly difficult to obtain liquid loans. This condition I believe obtains everywhere. Authorities say that the nature of loans needed is determined by the nature of the tangible property upon which they are based; that is, that only loans which are based on liquid tangible property are liquid—at least academically speaking—and that all loans which are based on fixed tangible property are slow, academically speaking. If this be true, as I believe it is, then there is good reason why we are finding it increasingly difficult to obtain a satisfactory proportion of liquid loans. As we have progressed and developed, the value of the tangible property of the country that is fixed has increased much more rapidly than the value of the tangible property that is liquid. As there is not any prospect of change in this trend, it is clear that as time goes on the difficulty of obtaining enough liquid loans will increase. If we can not obtain a substantial quantity of liquid loans, we dare not take on an indefinite amount of call obligations.

"Our reasoning has been then, that if we can not avoid slow loans, we must offset them with slow deposits. A financial institution whose debts are all subject to call and whose holdings are largely slow is not on a sound basis. It is true, of course, that many items that are not academically liquid are for the purposes of any given bank in normal times as good as if they were liquid. Such items, in case of need for money, can be passed over to someone else. It is true, also, that the Federal Reserve Banks help out immensely but, even allowing for these two facts, we are still in a rather dubious position when our debts are all quick and our holdings are all slow.

## *What Will Be Outcome?*

"WHAT will be the outcome of this new department we are not prepared to guess. So far it has accomplished more, rather than less, than we expected. Our fear before it was opened was that we would have difficulty in explaining the indeterminate notice feature. We have experienced no such difficulty. Our depositors, almost without exception, have grasped it without much, if any explanation.

"We can not say quite as much for our competitors. The local bank, which next to our own is the largest in the city, has joined with us in the try-out, but the others have held off. Some of them insist that all we have done is to raise the interest rate on savings deposits. As a matter of fact, this is the one thing we have not done. The interest rate on our regular savings deposits is unchanged. What we have done is to put in operation a piece of credit-moving machinery, which can safely and scientifically handle slow credits. But some of our competitors refuse to see this, and think we are making a mistake.

"We ourselves are just as sure as we can be of anything which has not actually happened that we are not making a mistake. We think that what we are doing is a thing which all savings banks in states where there are no mutuals, should do. The banking situation the country over would be in a much safer position if all of our savings deposits were subject to an indeterminate notice rather than the kind now generally in use. We ourselves would be glad to have all of our regular savings transferred to this new investment deposit department.

## *The Profit Side*

"WE are contracting to pay 1 per cent more on these investment deposits than upon our regular savings deposits. Naturally, we do not yet know whether or not we can make a satisfactory profit on this basis. We have figured the matter as carefully as we know how and think we can. But only experience will prove whether we are right or not. Our custom has been to carry a 15 per cent reserve against ordinary savings deposits. We propose to carry not to exceed 5 per cent against investment deposits, so that out of each $100 received on deposit we will be able to lend an additional $10. This $10 at current rates will bring in from 65 cents to 70 cents and there will be a substantial saving in advertising, stationery, salaries, and overhead.

"It takes much less work to handle slow money than quick. We think the two things will about offset the additional interest cost. As bankers know, forfeitures of interest on moneys withdrawn between interest periods generally bring the interest cost on deposits of this kind down to about nine-tenths of the advertised rate. This may not happen in this case but we hope it will and, if it does, there will be no question as to our ability to make a satisfactory profit."

The assets of the building and loan associations were increased by more than $822,000,000 during the past year, according to the report of the secretary of the national association. There are 11,844 building and loan associations in the United States with a total membership of 8,554,352 and assets aggregating $4,765,937,197. The gain in assets was 20.87 per cent over the totals for 1923. Three States—New Jersey, Ohio and Pennsylvania—reported increases of more than $100,000,000 each during 1924.

# The 51st Annual Convention

By WILLIAM E. KNOX
President American Bankers Association

WITH the opening of the Annual Convention of the American Bankers Association in Atlantic City on the 28th of next September, we will have completed a full half century in the life of the association and will stand at the threshold of a new and more important era in banking.

What this era will bring forth no man may accurately predict, but I am sure that all bankers will agree with me that whatever our responsibilities have been in the past, the responsibilities of the banker in the years to come will probably be greater than ever before.

It is a peculiarity of the business in which we are engaged that the more successful bankers become the heavier grows the burden of responsibilities and the greater becomes the demand for business foresight and business vigilance.

The logical way to meet this increasing burden is through counsel and open cooperation. What the directors' meeting is to the bank, the bankers' convention must, in a sense, be to the whole business of banking.

If in the past there was urgent need for and great profit resulting from the gathering of bankers together once a year and taking counsel through their national association for the betterment of all business, there is now evidently still greater need.

LOOKING back upon the great good which has come from our councils in the years gone by, and looking forward toward the opportunity for still more effective cooperation in the future, I earnestly urge all member banks in the Association to have representatives at the Fifty-first Annual Convention of the Association.

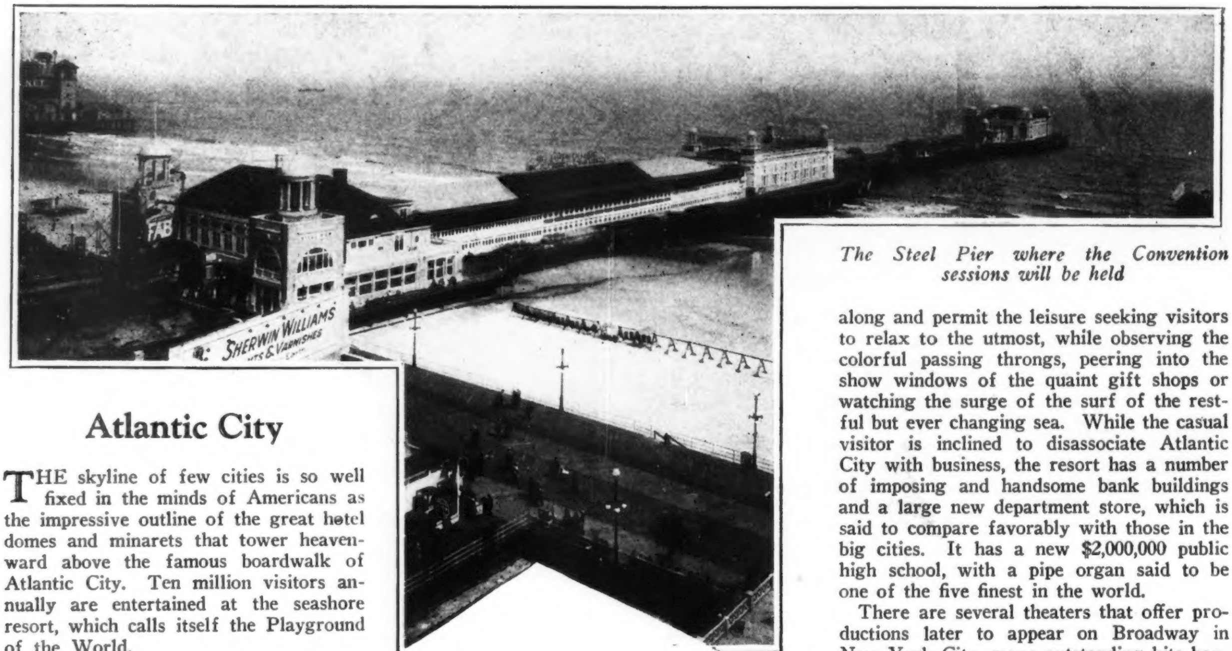
I believe that many a banker will better serve his community by attending this convention and getting that rejuvenation which comes from contact with fellow bankers from all parts of the country, than he can by following the sometimes monotonous path of the daily routine.

Important new banking legislation that will affect the whole financial structure is to be considered at the next session of Congress. President Coolidge and the administration leaders have promised to take up the reformation of our taxing system in such a way that the flow of investments will return to the most productive channels. These questions vitally affect banking and the country is looking to the bankers for counsel and advice as to how our economic standards can be kept sound and dependable.

THE time is fast approaching when the nation must consider a renewal of the charter of the Federal Reserve System. The system has amply justified its existence but, among its friends, there has arisen serious controversy as to its details. At the forthcoming convention, a committee appointed by the Executive Council of this Association will report what attitude the American bankers should take to bring about the preservation of the system so that it may continue to serve the common good; and it should be the duty of every thoughtful banker to participate in the shaping of this judgment.

Besides all this, many other problems in banking will be touched upon during the various sessions of the convention, so I urge all who read these lines to come to Atlantic City in September and to bring their problems with them.

But the business opportunities which the convention affords do not tell the whole story. Notwithstanding the business opportunities of the week, the convention is so conducted that there is ample time for rest, recreation and diversion, and a week among friends should add to the strength and energy of every delegate.




*The Steel Pier where the Convention sessions will be held*

# Atlantic City

THE skyline of few cities is so well fixed in the minds of Americans as the impressive outline of the great hotel domes and minarets that tower heavenward above the famous boardwalk of Atlantic City. Ten million visitors annually are entertained at the seashore resort, which calls itself the Playground of the World.

This seaside city will be the scene of the Fifty-first Annual Convention of the American Bankers Association, where the most representative figures in finance will gather late in September to seek common counsel to meet the problems of banking and lay plans to keep stride with the changes in a swift moving world. The general sessions of the Association will be held in the auditorium of a huge steel pier that extends far out into the ocean.

GOING to Atlantic City will be in the nature of a return engagement for the American Bankers Association as the annual convention of 1922 was held there. The one great advantage of the seashore resort as a convention city is that it affords an opportunity for all delegates to participate in big meetings under conditions that make for the utmost in comfort. Ordinarily, a convention hall suggests the crush of a crowd, the heavy, stuffy air and other discomfiture that attends a great gathering. But these conditions will not prevail in Atlantic City.

The general sessions will be held in the auditorium on the end of the steel pier that juts out over the ocean and is cooled by sea breezes. It will accommodate 3500 people and is well designed for convention purposes. The divisional meetings and the session of the Clearing House Section will be conducted in the Casino hall, located on the steel pier with seating accommodations for about 1800. Thus, there will be ample room for the business activities of the Association.

*One of the show places in the residential section*

There are more than 1200 hotels in Atlantic City with a wide range of rates. The Traymore will be headquarters during the Fifty-first Convention and clustered around it are the group of the great hostelries that will quarter most of the delegates. It is a matter of a few minutes stroll along the boardwalk for the delegate to arrive at the Auditorium—a pleasant contrast with the usual hectic experience of running the gauntlet of traffic-filled streets in the great cities to reach the scene of the convention.

TO make the journey to the annual convention doubly appealing, the Association selected the beach resort so that business and pleasure might be combined. There is no more delightful time at Atlantic City than late in September. The ocean waters are still warm enough to permit of surf bathing at one of the finest beaches in the world. But, in case of inclement weather, the resort has three great indoor pools filled with filtered ocean water. Within easy access to Atlantic City are three golf courses—on the links of the Seaview Club, the Northfield Country Club and the new Linwood Country Club. The devotee of yachting and sailing can follow this water sport for there is a fleet of these craft available for short cruises along the shore. There is an aviation station at Inlet and periodic passenger trips are made in Curtiss seaplanes up and down the beautiful beach so that the more adventurous may get the thrill of an air flight if they desire it.

The boardwalk skirts the ocean for a distance of nearly ten miles. Along this promenade, thousands of wheel chairs roll along and permit the leisure seeking visitors to relax to the utmost, while observing the colorful passing throngs, peering into the show windows of the quaint gift shops or watching the surge of the surf of the restful but ever changing sea. While the casual visitor is inclined to disassociate Atlantic City with business, the resort has a number of imposing and handsome bank buildings and a large new department store, which is said to compare favorably with those in the big cities. It has a new $2,000,000 public high school, with a pipe organ said to be one of the five finest in the world.

There are several theaters that offer productions later to appear on Broadway in New York City, many outstanding hits having had their first presentation in Atlantic City. Most of the hotels have dancing nightly.

The boardwalk and the great piers that stretch seaward are ablaze with myriads of gay colored lights at night. On the Million Dollar Pier is the Steeplechase and a wide variety of amusements. It is a small Coney Island. There is gaiety galore for those who seek it in this form of diversion.

ATLANTIC City is but three hours distant from New York and an hour from Philadelphia by train. A great system of modern roads from the three points of the compass lead to the resort, so that those who plan to motor to Atlantic City will find the routes quite comfortable and direct. The roads from Washington and Baltimore from the south are excellent, while those from Cleveland, Pittsburgh and Philadelphia are reported to be in good condition. Bankers motoring from New England and the north will find the motor route satisfactory, if the short stretch through some of the congested parts of New Jersey may be overlooked. By the careful selection of routes in passing through the industrial sections of New York and New Jersey, a good part of this congestion may be avoided.

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*Golf at one of Atlantic City's three clubs*

# Cooperative Marketing Is Producing Business-Farmers

By RALPH P. MERRITT

**They Are Being Grounded in Business and Marketing Principles Through the Necessity of Establishing Mutual Understanding Between Membership and Management. But Associations' Success Depends in a Large Measure on Ability to Finance Members.**

WHEN the farmer is prosperous, the nation is prosperous; when the farmer is in financial distress, his trouble is reflected in the business of banker, manufacturer and distributer.

This truth has been recognized for generations, because agriculture is the basis of our economic life without which there could be neither banking, manufacturing nor distribution. Since 1787 producers of this country have been endeavoring to work together in carrying their crops to market so that their business might be stabilized, the moments of frantic prosperity levelled to fill the hours of depression. Nothing much was accomplished, however, and the public came to consider agricultural distress as inevitable, much as we once looked on panics, recurring every so often and nothing to be done about it except run to cover, or perhaps due to some inferiority in the farmer's make-up which kept him from being a "business man."

Beginning with 1900, however, there has been a gradual change coming over our agriculture, the result of years of experience, some of it bitter. Practical, efficient and sound methods have been developed on a national scale in the solution of the farm problem whereby it is possible for the farmer to get a greater return for his products and the public to get a better article at no increase in price. These methods are embraced in what is known as cooperative marketing, a generic term still much misunderstood and frequently misapplied.

Cooperative marketing in a substantial volume in the United States began on the Pacific Coast. In 1915, according to the United States Department of Agriculture, there were 651,000 members of farmers' cooperatives; at the beginning of 1925, there were 2,500,000 members in nearly 11,000 individual organizations. Products valued at more than two billions of dollars were handled by these cooperatives in 1924.

When any economic-social movement reaches such proportions as these, the time for misunderstanding is past. Especially is it important that the "key" men of the country, such as bankers, should know what cooperative marketing is, what it attempts to do, what it cannot do. I am glad of this opportunity to write of my experience in the cooperative movement on the Pacific Coast, covering a variety of commodities, and to tell why I think cooperation offers the greatest chance for community stability and progress.

Cooperative marketing is the voluntary association of producers of similar agricultural commodities for the purpose of jointly administering the distribution of their products under a management of their own choosing, under a sound, legal and binding contract for the delivery of the crop, and under a plan of marketing procedure best suited to the orderly handling of the crop in question. It is a business undertaking, not a political venture. It is not a panacea for all ills and there is no single program adaptable to all commodities. It is a necessary linking of production and distribution under methods that are flexible and through impulses that are domestic and American. It is founded upon human relationships and has for its purpose human benefits and, therefore, it cannot be slovenly in its thinking or temporizing in its character.

With these general definitions in mind, we can examine intelligently the different types of cooperative marketing organizations now in existence. We see that one type is necessary for the handling of perishables which are distributed locally, such as milk, while another type is suited to perishables marketed in national channels, such as fresh fruit and grapes. These associations would not function successfully in handling non-perishables which move into trade channels in the raw state, such as cotton, rice or tobacco, which demand organization peculiar to their needs. Still another type of set-up is necessary for the marketing of non-perishables which are carried to the trade in finished form under the growers' own brands. An example of this with which I am intimately familiar is Sun-Maid raisins.

The existence of capital stock in an organization does not determine its cooperative status. Some commodities require capital for the work of processing and distribution, while others simply may borrow on the commodity in the raw state in order to finance the growers. The test of cooperative marketing lies in the purpose of those who attempt to use it and the skill with which they create the institution to serve them.

## *Price Fixing Not the Reason*

WHEN an effective cooperative marketing organization is set-up to serve its members, the farmer begins to take his place at the council table of business and gradually to withdraw from the line which forms at the note and mortgage window on every interest date. He does not achieve this position to which he is entitled by dictation or misuse of the power of organization, but by virtue of a service he is rendering to the community and the nation, as well as to himself, a service of stability which nobody will be quicker to recognize than the banker. Cooperation does not mean price fixing or the violation of economic laws, and those organizations which have thought that group effort gave them the power to suspend the law of economic gravity have found to their cost that its operation continued as inexorable in their industry as it does in any other line of business. Price fixing is not a reason for the existence of cooperative marketing. It is essential to certain types of merchandising as incident to a merchandising plan, benefiting both distributer and consumer, but the minute it disregards the buying power of the public, the value of competing products and the volume to be sold, trouble begins. In other types of merchandising price fixing is neither proper nor beneficial, nor has it ever been successful. Whenever a price level has violated sound economics by rising temporarily above the general level, then purchasing has ceased and production has increased to such extent that the cost of the morning after reconstruction of markets has been too great a price for the party of the night before. Price fixing is a bogey useful only in the arguments of those opposed to agricultural cooperation.

If not price fixing, then what are the benefits which agriculture can expect to receive from group effort?

## *Not Forced to Market*

LET us look for a moment at the way in which uncontrolled commodities come on the market. The farmer cannot time his production as the manufacturer does, but must obey the laws of nature as expressed in the seasons. His crop and the crops of perhaps thousands of men like him come to maturity at the same time. Under ordinary conditions, they would be rushed to market, dumped promiscuously and the farmer would rush to his bank to ask another extension of his loan because the proceeds had not been sufficient to enable him to pay out. The farmer, unorganized, has always heretofore sold on a buyer's market. Cooperation enables him to hold his goods and sell on a seller's market, his association storing the crop, bor-

*Drying Raisins near Fresno in California*

rowing against it and making advances to each grower in accordance with his production until such time as the crop can be sold in orderly fashion and complete distribution of the proceeds, with less expenses, can be made. Without in the slightest degree attempting a price fixing program, the cooperative can take advantage of better selling seasons in order to get a better return for the producer, and can do much, in some lines, to eliminate speculative losses.

This is generally thought of as the main, perhaps the only, way in which cooperation aids the farmer, but there are other ways of almost equal importance, still without asking the consumer to pay a higher price than economic conditions justify. Cooperation can effect economies in processing and manufacturing. Cooperation can simplify distribution and eliminate much of the cross-handling which means waste and duplicate charges. Cooperation can do more than any other agency to standardize the product, achieving uniformity of quality which means more money for the same amount of goods.

## *All Depends Upon Ability to Finance Members*

EVERYTHING that cooperation can do, however, is dependent on the ability of the organization to finance its members during the time required for the work. The banker, then, is a necessary partner in cooperative marketing. His responsibility toward the movement is far-reaching. He is interested in working toward that ideal state in which there will be neither booms of speculative prosperity nor times of depression and distress. Cooperation is the most effective means yet devised for accomplishing that highly desirable condition. Cooperation means stability and stability meants the security of the community and of the banker.

But the banker's responsibility is not purely a selfish one. He is a trustee for the economic welfare of his section and economic welfare is very close to spiritual and moral welfare in many ways. I remember a very wonderful old lady who always said that to her the banker stood next to her pastor in matters of community good. The banker must understand cooperation and be prepared to explain its possibilities and its limitations to those who look to him for guidance.

Failure in cooperative marketing comes largely from three sources, according to my experience. The most important of these is probably an improper understanding of working principles, such as a belief that cooperation suspends the operation of economic laws. A second cause of trouble is a poorly adapted business set-up. Finally, the most frequent cause of trouble has been failure in management. Cooperation is comparatively new in technique, though it is as ancient as humanity in principle. Men trained to cooperation are being developed, but they have not been numerous in the past, and more publicity has been given to the failures than to the successes; we can look forward to the time when capable executives will be available for every cooperative enterprise that is started.

As to specific instances of cooperative working, let us look at the records of the Rice Growers Association of California and the Sun-Maid Raisin Growers of California, which are typical examples of the handling of non-perishables by devices best adapted to the products in question.

## *Rice Industry Was Depressed*

THE rice industry of California was bankrupt in 1920, after a meteoric career of war time prosperity. There was no prospect of a market when the 1921 crop was planted. One hundred and fifty thousand acres of irrigated land, capitalized at $15,000,000, could be used for practically nothing else except growing rice. Banks in the rice country were weakened by conditions and the growers faced the loss of their homes. The producers took steps to save themselves by organizing an association which encountered unique problems illustrating those which every cooperative association must be prepared to meet. It was impossible to consider pooling the crop because of the lack of governmental or trade standardization of paddy rice and the inability of the growers to finance milling operations for themselves for selling the finished product. A contract suitable to the operation was drawn, financing was made possible through the War Finance Corporation on warehouse receipts, and the association instituted an auction system of selling individual lots which took into consideration the actual day-to-day value of the commodity. The association also began the collection of supply and demand data which never had been available to the industry before. One feature of this was particularly interesting. It was learned that through the failure of the Japanese rice crop and the importation of a different variety of Asiatic rice which the Japanese people refused to eat, the Japanese government was facing a political crisis while California rice producers were almost begging for buyers for the very type of cereal which the Japanese were accustomed to and wanted. This was the beginning of a profitable market for the California producer; 148,000,000 pounds of the 1922 crop found its way to Japan. This could have been done only through cooperative effort, the proof being that for three years prior to 1922, when prices in Japan were higher than they have been since 1922, no California rice was exported.

Cooperation pulled the rice growers out of bankruptcy and saved many banks at the same time. Since cooperation began, the rice growers have received a larger proportionate return for their crops than any other group of cereal producers in this country.

## *Raisin Growers Had Similar Trouble*

THE raisin growers faced much the same trouble a little later. Prices had gone to such high levels that much of the crop was unsold, general buying stopped, and the deflation of 1922 nearly wrecked the industry. Production had been more than doubled under the stimulus of high prices. The growers' capital investment of more than $150,000,000 was in peril. More than that, the safety of entire counties where raisins were the cash crop was jeopardized.

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# Cash or Crash in Germany

**By ROBERT CROZIER LONG**

**Dramatic Story of the Inflation Crisis and the Trusts Born of Bad Money and Wounded Almost to Death by Good Money. The Mania for Combination. The One Wise Man of Germany Picked Out of the Army. The End of Mixed Trusts.**

THE long-awaited deflation crisis has arrived. The "Firm Hugo Stinnes" of Mulheim on Ruhr, the greatest of all the dozen German concerns which were born of bad money has been wounded nearly to death by the cruel weapon of good money; and it needed the collaboration of the Reichsbank, of the Prussian State Bank, and of twenty-two commercial banks to prevent a disastrous collapse. The risk of collapse has ceased. But the deflation crisis, locally called the "Liquidity Crisis," of German industry generally is in full course of development. This wider collapse may also be averted. But it will only be averted by reversing radically the methods which made German industry wax fat and powerful in the inflation era; that is by retrenching, by lopping off, and by liquidating the overswollen agglomerations of capital created under the easy credit conditions of the first five post-war years.

*A jubilee was recently held in Leipzig to celebrate the hundredth anniversary of the Leipzig Bourse*

The age of the great mixed trusts which embraced everything from coal to typewriters, from copper to movie theaters, is at an end. These trusts have reached the limit of their development. The next few years will see their reduction quantitatively to more moderate proportions, and their conversion qualitatively from heterogeneous, unorganic museums of everything conceivable into homogeneous combines of undertakings naturally inter-connected. This conversion will take place not merely because the mixed trusts are too varied for any men or group of men to manage; it will take place mainly because all the mixed trusts are short of cash, whether for working capital or for repayment of short-term debts, and because the only remedy is to dispose of their outlying, unnecessary undertakings in order to realize ready money. No American or other foreign industrial credits that are likely to be granted will be sufficiently big to make this process of retrenchment superfluous. If it is not carried through, widespread insolvencies will result. Cash or crash is the alternative; and cash can only be had by abandoning the picturesque but dangerous megalomania which inspired the late Hugo Stinnes and his imitators.

The deflation crisis has come late. But it had to come. Every inflation country—Austria, Hungary, Czechoslovakia—had, or still has a deflation crisis. That is economically inevitable, and also morally retributive, for during the inflation orgies business did not suffer at all. For business bad money was a disease, but it was a merry, mad disease. It is the pains of convalescence that hurt. Until eighteen months after she stabilized her currency, Germany almost wholly escaped these pains. The Stinnes crisis of June was not the first sign that the pains were coming—already the big Barmat mixed trust was in trouble. But the Stinnes crisis was the first deflation ailment that woke up Germany and Europe to the perils underlying the successful stabilization of the mark.

The Stinnes crisis was acute, but brief. The first hint of it was in late May when Edmund Stinnes, the elder of the great Hugo's sons, announced his secession from the "Firm Hugo Stinnes," which is the Stinnes family concern. That, it was guessed, meant trouble, and within a week the trouble came. The firm was reported to be in financial difficulties. Before another week passed the firm was out of its difficulties. The difficulties consisted of debts totalling the relatively small sum (for a Stinnes Concern) of 155,000,000 marks. Of this total 110,000,000 marks were short-term debts, maturing before the end of the Summer. Of these short-term debts 90,000,000 marks were not secured. First came a meeting of the banks connected with the firm, under chairmanship of Reichsbank-President Schacht; and at this meeting these banks agreed to prolong the payment dates of 50,000,000 marks of liabilities for six months. To meet the other 40,000,000 marks a syndicate of twenty-two banks was formed. The Reichsbank helped with its influence, but not with money. The Prussian State Bank is helping the syndicate banks with rediscounts of up to 20,000,000 marks. The crisis has been overcome.

It was overcome on conditions of a kind which would have surprised the late Hugo, who was able to dictate to banks, being a dominant shareholder in two of the greatest. The firm had not only to hand over stocks and other securities, but it was put under a sort of Dawes control. It was forbidden to part with any of its undertakings or stocks in controlled undertakings without the banks' consent, and it was put under compulsion to deliver certain cash intakings to the banks. And here was the main condition—it was obliged to consent to partial dissolution, by selling some of the miscellaneous industrial and other undertakings which the ambitious but casual Hugo picked up airily, almost

in a fit of absence of mind, as England, according to the historian Seeley, picked up her colonies. ..

## *Lightened Load Will Improve Trust*

MOST of these undertakings have no relationship whatever to the coal-steel combine which was the nucleus of the Stinnes trust, and they were in no way necessary to the functioning of this trust. They constituted merely an injudicious locking-up of capital at a time when the trust had not enough money to pay its debts. The Stinnes trust will be all the better for this retrenchment process. Instead of being an unwieldy, top-heavy structure, built in all styles of architecture, it will become a moderate-sized combine of interrelated, mutually sustaining, enterprises in interconnected branches of production and distribution; and instead of having all its capital locked-up and difficult to realize it will have working capital in sufficient quantity, and money wherewith to meet its debts.

That is the Stinnes crisis in substance. It is a mere liquidity crisis, precipitated by the fact that credit is scarce in Germany and that stocks, of which the firm holds large quantities, happened to have fallen about 30 per cent in the months preceding the maturing of the 90,000,000 marks liabilities. But the antecedent history of the Stinnes crisis must be summarized, because it is the history of all the mixed concerns, the Wolff concern, Barmat concern, Michael concern, and others which waxed big in the bad money years. Stinnes was essentially an inflation wizard. He was also, of course, a sound man in industry. But without inflation the greatest industrial genius could not have built up the biggest combine in European history in half a dozen years. The Stinnes concern was born of the abnormal currency conditions which expanded the Reichsbank's circulation from some 3,000,000,000 marks before the war to the astronomical figure of 223,000,000,000,000,000,000 marks in November, 1923, the conditions which ultimately reduced the mark's worth to the one-trillionth.

## *No Need to Repay*

IN these happy inflation years the banks gave all the credit that was asked for, and the borrower repaid the credits in marks worth a tenth, a hundredth, or even a thousandth of the marks which he borrowed. With borrowed money, which he did not need to repay, Stinnes acquired the real estate, buildings, plant, transport, and majority stock holdings which he fused into the Stinnes concern. To achieve this meant chronically going short of cash; because all cash borrowed or derived from manufacturing profits had to be invested in the above listed real values before it depreciated, which usually meant on the day it was received. Neither Stinnes nor any other inflation wizard worried about being short of cash—new loans could be had any day on security of the vast "real values" accumulated by the wizards out of old loans. One could buy 10,000 shares of stock on borrowed money on the first of the month, and at the end of the month repay the debt by selling 100 shares. So the mixed trusts arose.

They would be rising today had only the inflation continued. The system was infallible. But a change took place when stabilization was achieved. Firstly, it became hard to borrow. Secondly, what was much worse, borrowing was done in stable gold marks and had to be repaid in stable gold marks of the same value. With this the magic of trust-building on bank credit disappeared. Wise men would have seen at once that industrial concentration must be checked. But Stinnes died within a few months of the stabilization; and there was only one wise man in Germany.

## *The Wise Man of Germany*

THIS wise man was not either of Stinnes' sons. He was a twenty-nine year old youth, Jacob Michael. Having started without a penny in 1914, when his adolescent business acumen was displayed so brilliantly that the Berlin War Ministry took him out of the field army where he served as a private, Michael created a second Stinnes trust, comprising some fifty corporations, by the end of 1923. While the other mixed trust magnates continued to blunder along, using inflation methods in a deflation time, Michael immediately realized that the stabilization had come to stay, and that inflation methods were out of date. Money, he reasoned rightly, not "real values," would henceforth be trumps. Hence he sold at top prices, a great part of his industrial holdings, and a few months later when the credit famine began, and when the Reichsbank ruthlessly rationed discounts, Michael was the only "liquid" business magnate in Germany. For a year he completely dominated the Berlin money market. As result of the enormous interest—up to 100 per cent—which was then charged for commercial loans, Michael in six months added an estimated 200,000,000 marks to his fortune.

The other mixed trusts continued to move in the old path. Their creators either disbelieved that the mark's stability would continue, or they failed to realize the import of stability. Stinnes' sons went on airily expanding the already over-expanded concern. They embarked ever further in miscellaneous and mostly unnecessary enterprises; they gained a grip upon the big Baroper Rolling-Mill Corporation; they snapped up a film business. For these purposes they contracted more and more short-term debts; and forgot that these debts would refuse to evanesce into paper nothings as the inflation debts had kindly done. So when the debts were due for repayment there was no money to pay them with. And by the beginning of June the "Firm Hugo Stinnes" was in such a position that only organized bank intervention prevented its ignominous collapse.

## *Concerns Are Solvent*

NEITHER the Stinnes concern nor, as far as is known, any of the other mixed trusts is insolvent. All are only too solvent; their solvency—the fact that they put all their cash into solid undepreciable values—is the cause of their troubles. It is a case of:

Water, water everywhere
But not a drop to drink.

Assets everywhere enormously exceed liabilities, but they cannot be realized. The assets of the "Firm Hugo Stinnes" are estimated to exceed liabilities by 450,000,000 marks. But in so far as these assets consist of majority stock holdings in industrial corporations, the depressed state of the bourse prevents sale; and a great industrial establishment cannot be sold for ready money in a hurry. This is the state with big industry as a whole. Some of the mixed trusts practiced a wiser policy during the inflation years, in that they saved their marks from depreciation by investing them not in industrial securities and industrial wares, but in foreign exchange. This was the factor which prevented the outbreak of a liquidity crisis in 1924. When industry in May, 1924, protested against President Schacht's refusal of Reichsbank credit, he counselled the would-be borrowers to realize their hoarded dollars and pounds. This, against their will, they were obliged to do, and before the end of the year, 2,500,000,000 marks worth of foreign bills and notes were realized. Business for a time had cash. Later it obtained American credits. These credits only aggravated conditions. The hope of indefinite loans from abroad and of abundant cash delayed the necessary process of retrenchment and concentration. The mixed concerns, mostly originally iron and coal corporations, held fast to their banks, insurance companies, publishing firms, hotels, movie theaters and other various enterprises, instead of shedding them gradually, and restoring their own financial liquidity. The foreign credits dried up; the outlying interests cannot be realized in a hurry; and the liquidity crisis is the result.

## *Locked Teeth of Cash*

THE fundamental solvency of German industry is undoubted. The short-term debts are relatively small, and with normal money market conditions, they would easily be met by renewed borrowing. The long-term debts are microscopically minute. In fact the complaint of industry is that it cannot borrow for long terms. The pre-war long-term debts were mostly paid off in 1922 and 1923 at between the fiftieth and the thousandth part of their original value. The valorization bills now pending annul all but 15 per cent of such industrial bonds as were not paid off, and all but 25 per cent of industrial mortgages. One group of corporations which in 1913 had mortgage and bond debts totalling 2,291,000,000 marks has now debts of only 178,000,000 marks. Yet the assets of most of these corporations are considerably more valuable than in 1913. The great mixed trusts are even in a better position; because before the war the iron and coal corporations, which were their nuclei, had mostly very large bonded indebtedness; and they paid off this indebtedness with particular energy in the inflation years. The one trouble with the mixed trusts is that they have bitten off more than they can chew. The bite in the shape of valuable industrial and com-

(*Continued on page* 107)

# Speeding Out of Debt

By REUBEN A. LEWIS, JR.

**United States Cuts Down Public Debt Six Billions in Six Years. Although Real Reduction Is Less. Use of Surplus Accounts for Third of Retirement. Treasury Defends Policy That Gives Ultimate Rather than Immediate Relief to American Taxpayers.**

THE rapid retirement of our national debts has been a traditional policy of the United States since the early days of the republic when a thirty-two-year-old financier, serving as Secretary of the Treasury, named Alexander Hamilton, scoffed at the idea of the old-world philosophers that a national debt was nothing more than a mine of gold in another guise. The first Federal budget devoted more than three-fourths of the total amount appropriated to the service of the debt.

After a lapse of a century and a half, during which the government's revenues have increased by more than a hundred fold, it is found that nearly 40 per cent of the national income is being spent in connection with the public debt. Indeed, every cent that the United States owed at the outbreak of the world war might have been wiped out by the amount that the treasury paid last year in interest and in cutting down the size of the vast sum still owing. The debt has been nominally reduced more than six billion dollars since it reached the peak of $26,594,000,000 in August, 1919.

The meaning of the public debt to the average man can be brought home directly. If the debt did not exist, there would not be any need for the levying of a Federal income tax. For the amount of money raised by the income taxes just about equals the sum that the treasury now sets aside annually for interest on the twenty billion dollar debt and for the orderly retirement of the outstanding obligations through the operation of the sinking fund together with the surplus revenues that have been applied to cut the debt down still further.

## *Slashing the Debt*

THE treasury runs in such a quiet, unobtrusive manner that the public is seldom conscious of even those operations that have an important and far-reaching effect on its pocketbook. The significance of its deeds was revealed in part by Secretary Mellon in July when he announced that the government had a surplus of $250,505,238 for the fiscal year of 1925 just ended and that this would be spent in reducing the public debt. At the same time, he revealed that the debt had been cut down $734,619,101, due to the use of $466,538,113 from the sinking fund and other receipts available and shaving down the government's working balance in the treasury by $17,575,749 more.

The public debt, in round figures, amounts to $20,500,000,000.

About half of this represents the foreign loans that we made to Great Britain, France, Italy and the other debtor nations.

The other half stands for that part of the war's cost that we did not pay for at the time.

The United States has always been a notable example among nations as a country that operated on a pay-as-you-go basis. So, when the world war broke out the debt legacy of the past was just about one and one-quarter billions of dollars—even though we had just finished digging the Panama Canal and less than a decade before had engaged in a war with Spain. During the world war, the United States spent about

*The Statue of Alexander Hamilton in front of the United States Treasury in Washington*

fourteen billion dollars more than its cash income. To pay the bills, it borrowed the difference from its own citizens and floated some more Liberty and Victory bonds to get money to loan to the allies. So when arms had been stacked and demobilization was over, the American government found itself with a truly enormous debt—staggering when compared with the public debt of yesteryears, for it was larger than the total expenditures of the nation from the beginning of the republic.

When the time came to turn back to normalcy, the government decided that private credit could not be expected to flourish unless the public debt was on a sound basis and so adopted a rigid debt paying policy.

Tucked in the provisions of the Victory Loan Act of 1919 was one courageous little feature. It repealed the existing provision for a permanent appropriation of 1 per cent on the entire debt for sinking fund purposes and declared that the treasury should set aside each year from the ordinary receipts an amount equal to 2½ per cent of the Liberty and Victory bonds outstanding at the beginning of the next fiscal year. This meant that by 1945—if the Allies in the meantime should have paid off their debts to the United States—the nation would be virtually debt free.

However, when the actual retirement of the debt is compared with the plan, it is observed—if that part represented by the foreign debts is excluded—that we are retiring it more than twice as fast as Congress contemplated when the resolute decision was made. Six billion dollars paid off in six years! A billion dollars a year for debt reduction!

## *Congress and Spending*

IT is obvious that debt retirement can not exceed the minimum speed limit fixed by the budgetary allowance, if Congress spends all of the incoming revenues. Even the prospect of a surplus in the treasury seems to be a signal to Congress and the departments for the drafting of plans to get rid of it.

There is hardly a member of Congress who would not be ingenious enough to frame a single bill calling for the appropriation of the total amount. Many deserving projects, long deferred because the government could not afford to undertake them, are revived and pressed for consideration. Quite naturally, a vast number of the measures proposed call for the expenditure of Federal funds not entirely in keeping with a program of economy.

It was doubtless anticipation of the influx of bills designed to use the surplus that prompted Secretary Mellon to announce "This money has been spent for debt reduction and is not available for tax reduction."

In figuring debt reduction, it would be fairer to consider the operations of only the past five years. The treasury had just borrowed an unusually large amount of money temporarily in anticipation of the September tax payment date when the peak of $26,594,000,000 was reached. The treasury considers $25,484,000,000—the debt on June 30, 1919—as more representative. The

government found it necessary to keep tremendous working balances on hand during the first few post-war years to have enough money on hand to meet its obligations. This balance has been constantly cut down—so that $700,000,000 of debt reduction may be attributed to shrinkage in the net balance in the general fund.

So—taking the last five years—the United States has really cut down the public debt more than four billion dollars. At the end of the past fiscal year, it amounted to exactly $20,516,193,887. So rapid has been the retirement of the debt that the question has been raised if the treasury might not go slower in redeeming the debt and leave more to future generations to pay rather than place the burden of providing the funds for speedy redemption on the producers of this age. At least, it is argued, the surplus need not be devoted to retiring the debt.

## Applying the Surplus

THE surprising fact in connection with debt redemption is that more than one-third of the reduction has been achieved by using the surplus, representing the revenues left over after all the expenses of running the government had been met and a fixed part of the public debt had been retired. Had the surplus been left in the treasury to meet the ordinary expenses of the Federal establishment rather than to reduce the debt, lower taxes might have been levied in several years past: That is, provided Congress had not used the existence of the surplus as an excuse to embark upon undertakings that were eschewed because the funds apparently did not seem available.

While there has been a surplus in the treasury at the close of almost every fiscal year, it should not be inferred that the department waits until the end of the year to spend it. The maturity dates of the Federal securities have been arranged so that interest is due in March, June, September and December. The amounts usually run from three to five hundred millions. The income tax installments are paid at the same time. The income and the outgo are more or less balanced so when the treasury has an excess of cash it uses this to retire the maturing securities and refunds the balance by the sale of new issues. It seeks to arrange its borrowing so that the treasury will not have to go into the market more than four times a year to get the necessary funds. The department figures out how much money it will need to pay the running expenses of the government and how much it will require for debt purposes. It estimates how much the incoming revenues will amount to during the quarter and then shapes its borrowing plans. Thus if there is a surplus, it is applied from quarter to quarter rather than at the end of the fiscal period.

The Secretary of the Treasury, in estimating the surplus, must be conservative. The prospect of a huge surplus would spur Congress on in its spending, or would lead to tax cuts that would slash the income down to a figure that would not provide enough money to keep the Federal machinery in motion. For this reason, the actual surplus is virtually always greater than the sum

*How one cartoonist interpreted the Federal surplus*

estimated early in the fiscal year. Nevertheless, the treasury has immediately applied the surplus toward cutting down the debt, even though this course of action gives ultimate—not immediate—relief from taxation.

## Congress Has Not Temporized

CONGRESS has not temporized in the matter of handling the public debt. Rather than shift the redemption of the debt to future generations, it has preferred to cut it down in an orderly, rapid manner, even though this course involved the continuation of heavy taxes. Bearing the burden of heavy taxes is not inclined to make a big hit with the voters—the people who keep the politicians in power. But nevertheless, still lower taxes would have been possible if Congress had been willing to do this at the expense of debt reduction.

Congress, at a time of discontent over Federal taxation, not only voted to set aside an amount equivalent to 2½ per cent of the outstanding Liberty and Victory loans, but declared that the interest saved on the redeemed bonds also should go into the sinking fund. Thus the first appropriation to the sinking fund amounted to $253,000,000 dollars, but last year it had grown to more than $300,000,000.

There are five other sources of funds for debt retirement. The Federal estate tax permits the executors to use Liberty bonds in payment of taxes, so when Federal securities have come in for these purposes, the treasury has promptly canceled them. Franchise taxes received from the Federal Reserve Banks can be used for the debt retirement. Forfeits, such as fines imposed by the customs service on gem smugglers, and gifts that occasionally are made to the United States or to the "conscience fund" may go to the same worthy cause.

A source that promises ultimately to make the sinking fund shrink by comparison is the repayment of the foreign debts.

## The Foreign Debt Repayments

WHEN the United States loaned the Allies nine billions of dollars during the war period, it was wrrtten in the covenant that when they paid the debts the money should automatically be applied toward cutting down the public debt. For, the government got the money to loan to the foreign nations by borrowing from the American people, and it was nothing more than a matter of common justice that the taxpayers should benefit from the satisfaction of the loans. When the British refunding plan was adopted, it permitted the British government to settle either in dollars or in Liberty bonds because Liberty bonds were then selling at below par and it would make it slightly easier for Great Britain to make a debt settlement. The same terms doubtless will be offered to all the debtor countries. So whenever any foreign nation pays either interest or principal on its debt, in dollars or in Federal securities, this will reduce the public debt by just such an amount.

There is scant prospect of this part of the debt being wiped out as soon as 1945. Great Britain has until 1962 to pay. There would be real cause for national rejoicing if France, Italy, Belgium and the other debtors should promise to settle at even such a remote date. At any event, whatever they pay from year to year will go toward redeeming the public debt, and as the refunding arrangements come into effect, the American taxpayers will have a lighter load to carry.

During the fiscal year of 1925, these six sources accounted for $466,538,113.

## Exceeding the Speed Limit?

QUITE naturally, there has been criticism of the treasury for speeding up the redemption of debt when many of the world's greatest powers, even in the prewar days, rocked along contentedly with permanent debts. A few members of Congress have raised the question whether or not it was advisable to set aside, in addition to the 2½ per cent for the sinking fund, the interest saved on the securities that had been retired. While Secretary of the Treasury Mellon has insisted that "debt reduction, in fact, is the best method of bringing about tax reduction," there have been many who repeated the slogan "eventually, why not now?" At least, they say, why go beyond the fixed plan of applying the sinking fund and the foreign repayments and use the surplus for debt retirement?

Representative Martin B. Madden, the chairman of the House Committee on Appropriations, sponsored a bill at the last session of Congress providing for an automatic reduction in income taxes proportionate to the amount of the surplus. It did not get past the first stage, even though it was offered by such a conservative man as one who is known as the "Watchdog of the Treasury."

The policy of applying the surplus to retire the debt is warmly defended by the treasury.

Garrard B. Winston, Undersecretary of the Treasury, in charge of the fiscal affairs of the government, admits that some have said the policy is "too drastic," but he insists that it is sound to the core.

"We are charged with being too anxious to see the debt reduced and therefore its

(*Continued on page* 117)

# Unrest and Business in the Far East

By HOWARD T. LEWIS
Dean, College of Business Administration, University of Washington

**Unrest Is Neither Temporary nor Superficial. Deep-Rooted and Powerful, Though Often Lacking Definite Purpose. China, Japan and Philippines Each Subject to Some Little Understood Element. Men Interested in National Welfare Should Study Orient.**

IT is difficult even for one who has long studied social and economic problems of the Orient to appreciate properly present developments there. This difficulty springs from a number of sources. In the first place the Orient is by no means a unit—the problems in Japan are very different from those in China and the Philippines. In the second place it is very difficult to distinguish between the temporary and the permanent developments. There are many other factors which make it no easy matter to appraise properly developments in the Far East. Yet, in spite of the complexity of the situation, there are outstanding considerations which must impress themselves upon anyone who is interested in the commercial and financial development of the region under consideration.

The first outstanding fact is the one which has been brought to us so many times with increasing emphasis, namely, that the Orient from Harbin to Manila, from Yokohama to westward of Peking is in a state of unrest such as it has never experienced before. This unrest is neither merely temporary nor superficial, it is a deep-rooted and very powerful though somewhat intangible thing.

It is doubtless true that oftentimes it lacks organization, definite purpose or direction. These very characteristics render it difficult to analyze or to measure. On the other hand, within the past few years there has been a very decided change in attitude, especially in China, toward foreigners. Old residents frankly say, "We used to think we knew the Chinese, but we know now we don't." In short, unrest is prevalent everywhere.

There are many outward evidences of it. Thus in the Philippines men seem not quite content with the evidences of material advance exacted under the American administration. There is a very obvious expression of the feeling that political liberty is rated higher than material progress. Men would seem to prefer a lower standard of living, if this were to be the price, than to have outward improvement at the expense of freedom. No candidate running for office who opposes independence has the slightest chance of election. The American may not be convinced that political freedom would be gained were the Philippines freed from the American administration. He may have the conviction that not liberty but license or bureaucracy, perhaps even foreign domination, would follow the granting of independence. There are leaders among the Philippine movement who themselves hesitate when the actual fact of political freedom confronts them. But these arguments pro and con are somewhat beside the issue. The real point is that for one reason or another unrest prevails in the Philippines.

### *The Rising Racial Consciousness*

SO, too, in China. Whether or not the change in the characteristics of the Chinese is due to the advent of Occidental civilization or not is more or less a matter of conjecture. Russian Bolshevistic activities, noticeable in all centers of population, are doubtless playing their part, but a developing national (or racial) consciousness is a factor of equal importance. But that there is a very real widespread and deep-rooted resentment to all foreign control, and particularly Japanese and British control, there is no question. This resentment is more pronounced and more obvious day by day. Thus, it comes with something of a shock to learn the Chinese formally demand the return of Shameen, the foreign concession in Canton. The Chinese now demand indemnity for the death of Chinese students in the recent rioting in Shanghai. The abolition of extra-territoriality privileges in general are renewed. The Chinese press seizes upon the slightest pretext, even without any real foundation of fact whatsoever, to arouse the Chinese to demand "China for the Chinese."

*Traffic passing through the awning-covered street in Kyoto in Japan*

It is a most lamentable fact that those to whom we in America should be able to turn for an interpretation of Chinese public opinion are often not in a position to assist. The foreigner in China generally seems quite content to live his own social life, meet his own friends, travel in his own circles. If he does business with the Chinese, as he must do, he utilizes his compradore. One may approach even some of our government officials residing in China and ask them, for instance, the names of half a dozen leading bankers in their city without getting a list of more than one or two. If this list is completed, it is because the official calls in a compradore and has him complete the task. To these, quite as much as to those living in America, occasional outbreaks, such as those of the early summer, come as something of a surprise. Men in business in the United States have repeatedly in private given it as their opinion and their experience that they have got more information from almost any other source than through their own representatives in China. It is unfortunate that this criticism has to be made. It is understandable that government officers with tremendous amount of detail to handle do not have the time to do all that they might wish to do, but if the primary function of foreigners in China is to live and be close to the Chinese people, then it must be confessed that in many instances they have not been true to their obligations.

The unrest as in the Philippines and China is found in Japan. It is difficult to think that a few years ago the press of Japan would be as open in its denunciation of the House of Peers as it now is, or that it would refer to those high in authority as "obstinate," "obstructionists," "arrogant" or "foolish." This is something new in Japanese journalism, and an insistent demand on the part of the public secured from the last Diet an extension of manhood suffrage, with the result that 10,000,000 will vote at the next election that were heretofore denied that privilege. The education bill was debated most vehemently. The bitter criticism of both the government and of business leaders, expressed at the instance of the

*The west end of Shameen Island, where the foreign residents fled during the recent trouble in China*

Takato failures in February, is expressive of the new spirit. These are all instances and others might be given of a new spirit in Japan.

## *Unrest and Business*

OBVIOUSLY this unrest has its affect upon business. The Philippines are probably in better condition than any of the other countries under consideration. Last year was a good year. This year has been a better one. With the possible exception of sugar and cigars, the Philippine commodities have sold well and crops have been good. If the Filipino and the Americans in the Philippines would spend less effort and time talking independence and devote the same amount of energy to doing and talking business, everybody both in the Philippines as well as in the United States would be far better off. China has not been so happy. The chairman of the Hong Kong-Shanghai Bank in his report to the directors in February of this year says that "the year under review has presented even greater difficulties than its predecessor." Taxes and intermittent warfare, brigandage and piracy, have interfered seriously with trade, particularly with piece goods. Living is high; costs of doing business are high; taxes are high, and, what is worse, often uncertain. In Central China, in the vicinity of Shanghai and in the north of China, floods last year rendered thirty million people homeless. Warfare interfered with railroad transportation, coal deliveries could not be made in Tientsin in midwinter, and its trade was interfered with severely. A million men are under arms who, instead of being in productive industries, are living off of the fruits of other people's labor. Fluctuations in silver last year were more pronounced than the year before. Old, well established firms in Hong Kong have reduced their forces materially, and some have been in serious financial straits. The salt revenue last year was $9,000,000 less than the year before, the money presumably being taken by army officers to pay the soldiers and to buy supplies. It is true that there was an increase in maritime customs, but it is also true that there was a decline in the native customs, a change which always occurs in time of trouble in China.

It has been urged that China progresses in spite of such disturbances, that a state of unrest is more or less chronic in China. It has been pointed out that this does not affect the life of the Chinese people, and that no one in China takes it seriously. It is also said that the United States did not establish a central government for ten or fifteen years after it declared its independence, and that we should not expect China to do so in less time. All these things are more or less true. It should be remembered, however, that the very fact that internal disturbance does continue is a matter of grave concern. Warfare in China is becoming civilized and touches the lives of the people more and more. The very economic development of China renders its people interdependent and the more affected by unsettled conditions. There are very few people either Chinese or foreign who will venture to suggest that the end of Chinese civil disturbance is in sight. The comparison with the United States is hardly fair, because, while in this country we worked out our problem without interference from abroad, among literate people, accustomed to self-government, in China foreign governments repeatedly interfere, 80 per cent of the people cannot read and the traditions of a republican form of government do not obtain. True, the central government exercises more power than many people think, but that it enjoys the confidence of the people is hardly true. The mass education movement in China, by which in the course of one hour a day for four months illiterate Chinese are taught to read the thousand most commonly used characters, is pregnant with possibilities. Hundreds of thousands of Chinese have already learned to read as a result of this movement, and that millions will profit by the opportunity is within the limits of possibility.

*On the sea wall near the ferry landing at Canti in the Philippines*

## *Japan Bans Foreign Borrowing*

CONDITIONS in Japan are likewise affected by recent developments. More than a dozen banks have failed within recent months. Attempts to secure certified public accountants failed again in the last session as it has in other sessions. Accounting practices in many firms are anything but satisfactory. Government inspection of banks is ludicrously inadequate. Unemployment is a most pressing and difficult question. Chosen suffered severely this spring, and 60,000 persons were reported to be starving in February and March. The balance of trade is distinctly adverse. The government has placed a ban on foreign borrowing. One hundred million yen have been borrowed in the United States and Great Britain between Jan. 1 and March (when the ban was removed), making a total of 1,600,000,000 yen, on which the annual interest payment amounts to 100,000,000 yen a year for the next six years. A loan of 9,000,000 yen was made to the Han Yeh Ping Iron Works and 600,000 yen to cooperative cocoon and drying establishments. One must not, however, be too severe in criticism. Problems of deflation are not easily solved at best, and when complicated—as they usually are—by political exigencies, they become increasingly so. Japan is working its way

(*Continued on page* 107)

# Millions Can Be Saved by Cleaning Wheat

By C. B. SHERMAN
U. S. Department of Agriculture

**Nearly 14,000 Freight Cars Were Necessary in a Recent Year to Haul to Market That Part of the Wheat Crop Which is Not Wanted and Which Reduces the Value of the Offering. A Smut Loss for the Northwest Estimated at $10,000,000.**

DOCKAGE in wheat has always been one of the most serious problems of the wheat belt, particularly throughout the spring wheat region. The amount of dockage shipped in the course of marketing the wheat crop of one year and the total loss to wheat farmers, including the cost of shipping, handling and cleaning out this dockage, is almost beyond calculation.

Dockage, which after its removal from the grain is known as screenings, often constitutes from 10 to 20 per cent of the grain as it comes from the thresher. It is estimated that nearly 12,000,000 bushels of dockage were produced in one recent year in North Dakota, South Dakota, Minnesota and Montana; that over $675,000 was paid for threshing this dockage; that nearly 14,000 extra freight cars were used to haul it to market; that over $800,000 was paid as freight charge on this dockage. In the Pacific Northwest the loss from smut, which greatly aggravates the dockage problem, is estimated to be millions annually.

The dockage problem directly concerns many others besides farmers. The explosive quality of the light dust of grain, when mixed with air, endangers life and property at the threshing machines, mills and elevators. If the millers do not remove the dockage entirely, the presence of foreign grains or weed seeds in the wheat ground for flour often produces objectionable characteristics in the flour and in the bread made from it. And, of course, the increased cost of dealing with this dockage in transporting and cleaning tends to increase costs to everyone, all along the line, and to increase the cost of the daily loaf of bread to consumers.

For four years in succession clean wheat campaigns have been conducted with great vigor throughout the wheat belt by the United States Department of Agriculture in cooperation with agricultural colleges, state marketing officials, farmers, dealers and millers in an effort to mitigate and eventually to conquer this evil of excess dockage. The three slogans of the campaigns suggest the successive steps by which the ultimate solution must be reached, "Clean Your Seed Wheat," "Clean Your Market Wheat" and "Know Your Own Wheat."

The first point of attack is to improve the quality and purity of seed and to urge better farm methods of cultivation, so that weeds and foreign grains will not be grown with grain. Ninety-six per cent of the spring-wheat farmers during a recent year planted from 1000 to 500,000 weed seeds per acre with their wheat. If farmers raise clean wheat in the first place, all the expense and trouble of handling dockage and all the expense and trouble of removing dockage will be avoided, and millions of more bushels of wheat could be grown on the same land if weeds were eliminated.

In this war on weeds moving picture films entitled "Wheat or Weeds" and "Better Seed—Better Crops," and illustrated lantern slide lectures, prepared by the Department, have been used wherever halls are available throughout the wheat-growing regions. Demonstrations, distribution of bulletins, posters, broadcasting talks by radio are other means used for putting across the campaign. The agricultural colleges in their short courses to farmers include considerable instruction on the subject. Each recent Secretary of Agriculture has taken an active interest in the campaign and has contributed to the discussion of Federal wheat grades and grain cleaning.

But the actual production of clean wheat is a long-time proposition. Meanwhile we have the unclean wheat and the immediate and vital question is how to make this wheat clean at the least expense. Three lines of attack are now being followed: (1) To urge better cleaning at the thresher with more efficient use of the thresher cleaning equipment. (2) To extend the use of a recleaner that has been developed largely by the Department of Agriculture for the purpose of cleaning out dockage. (3) To extend the use of an aspirator that has been developed by the Department of Agriculture expressly for the purpose of eliminating smut. All of these methods are designed to clean the wheat at or near the farm in order to eliminate the enormous freight bill now paid on dockage and in other ways to hold expense as low as possible.

## *Cleaning at Thresher*

GRAIN threshers are equipped to clean wheat within reasonable limits, but the problem of grain threshing is essentially a problem of reclaiming as high a percentage as possible of wheat from the straw. Thus the cleaning problem at a thresher is secondary to thorough threshing and saving of wheat. Many threshermen take pride in cleaning the threshed wheat thoroughly, but when there is a large amount of dockage in the wheat it is practically impossible to clean it thoroughly with the thresher cleaning equipment.

The campaign teaches that equitable arrangements should be made with threshermen to induce them to clean the grain. They should be paid at least the threshing charge for threshing the dockage, for usually weeds are much more difficult to thresh than wheat.

Grain cleaning machinery built for mill and elevator use consists of very heavy stationary machines which, for efficient operation, depend largely upon uniformity of working conditions such as level position, uniform flow of grain to the machine and uniform driving speed. These machines are usually built to remove a special kind of foreign grain or material from a special grain and are usually highly efficient for that purpose, but they are built for continuous duty and are necessarily expensive. For these and other reasons the existing standard grain cleaning machinery for mills and elevators is not conveniently applied to a threshing machine for recleaning purposes. Thus the development of machines better adapted to farm purposes became a pressing need.

## *Department Develops Recleaner*

PORTABLE recleaners have been developed by the United States Department of Agriculture, which are used readily with any threshing machine of the stationary type, and one of these can be used with a combine. Several of these recleaners have been constructed and placed in active and effective use. One type of recleaner is a commercial disk cleaner, mounted on a separate truck. Another is a cleaner of the drum type, also mounted on a truck. Both are self-containing cleaning units which accompany the thresher and clean the wheat as threshed.

One of the great advantages of using the recleaner is that it separates the screenings, or dockage, right at the farm at a cost of only two or three cents a bushel, and these screenings make a good farm feed, as they consist largely of cracked and shrunken kernels of grain, weed seeds, wild oats, chaff, broken straw, etc. In fact, if a farmer does

(*Continued on page* 121)

# A Savings Plan to Keep Money In the Bank

By BRUCE DAVENPORT

**Living Insurance Offered For Sale by America's Largest Savings Bank. Puts a New Purpose in Accumulation That Can Be Dramatized. Another Metropolitan Bank Capitalizes the First-of-the-month Habit and Sends Out Bills for Monthly Deposit.**

SINCE the savings banks became convinced that the way to make the individual get on in the world was to put a purpose in savings, the progressive institutions throughout the country have been busy trying to devise plans with the most alluring goals to aim at. Though it is not such a long time ago that the appeal consisted of the general advice to "save for a rainy day," the forward-looking banks have resolutely refused to put all of their faith in the dreary old slogan and have become specialists in thrift plans.

Instead of urging the depositor to lay aside his money to avoid misery in his old age, they have stressed the gloriously secure feeling of owning your own home, driving a smooth-running automobile, the joy of clipping coupons from a gilt-edged bond, being the owner of a prosperous business or taking a vacation trip to some historic or beautiful spot. These alluring objects have been held out as the means of providing a goal, for it has been found that the average individual will save if he wants anything badly enough

## *The One Weak Point*

WHILE the savings banks have encouraged virtually all of these plans, because all of them promoted the idea of systematic saving, there has been one weak point in a few of them when considered strictly from the viewpoint of the bank. The success of the plan meant the withdrawal of the funds.

The ideal savings plan—to the banker—would be one that draws money into the bank and keeps it there. The largest mutual savings bank in the United States, with total deposits of a quarter-billion dollars, has hit upon a new scheme that it thinks will achieve just such an end. It is promoting the idea of buying "living insurance."

Living insurance, as defined by the Emigrant Industrial Savings Bank of New York City, is "a fund which you save and keep permanently in this savings bank—equal to six months of your average earnings. It means that no matter what may happen to you, as the main support of your family, the daily living expenses of your home are insured for six full months."

While savings banks throughout the United States have striven to impress the individual that he should lay enough aside in a savings account to provide for any emergency, the idea probably has not been dramatized more deftly than by this New York mutual savings bank. It fits the needs of the bank. In the first place, a savings bank in New York State cannot carry more than $5,000 in any individual account. It would be an exceptional case where a half-year's average earnings exceeded this limit. The plan has as its object the creation of a fund that is kept in the bank permanently—or until the emergency for which it is being accumulated develops. It is a large account that will bring a profit, rather than a loss, to the bank. Finally, it is universal in its appeal, because virtually every depositor has a need for just such a fund as it is purposed to create.

The plan does not contemplate that the depositor shall set aside an amount equivalent to six months' earnings within the span of a single year. A period of five years is the suggested time for the creation of this living insurance. It is simple because all the depositor has to know to make his plans is how much he earns in a year. The following living insurance table tells how much to set aside each month:

| *If Your Annual Earnings Are:* | *Then Your Living Insurance Should Be:* | *And Your Monthly Deposit Should Be:* |
|---|---|---|
| $1,000 | $500.00 | $7.60 |
| 1,500 | 750.00 | 11.40 |
| 2,000 | 1000.00 | 15.20 |
| 2,500 | 1250.00 | 19.00 |
| 3,000 | 1500.00 | 22.80 |
| 3,500 | 1750.00 | 26.60 |
| 4,000 | 2000.00 | 30.40 |
| 4,500 | 2250.00 | 34.20 |
| 5,000 | 2500.00 | 38.00 |
| 5,500 | 2750.00 | 41.80 |
| 6,000 | 3000.00 | 45.60 |
| 6,500 | 3250.00 | 49.40 |
| 7,000 | 3500.00 | 53.20 |
| 7,500 | 3750.00 | 57.00 |
| 8,000 | 4000.00 | 60.80 |
| 8,500 | 4250.00 | 64.60 |
| 9,000 | 4500.00 | 68.40 |
| 9,500 | 4750.00 | 72.20 |
| 10,000 | 5000.00 | 76.00 |

To sell the plan of "living insurance," the bank uses advertising space in the leading metropolitan dailies. Below an attractive pen and ink sketch, depicting some crisis in the life of the home, it asks pointedly:

"What would happen to your home:

"If you should be seriously ill for several months?

"If your salary or earnings should suddenly be less than today?

"If business conditions should go against you?

"If the doctor should advise you to take a long rest for your health?

"If some member of your family should fall ill—meaning large expenses for doctor, medicine and treatment?

"These are all things that can happen and do happen every day—to rich and poor alike—to men who thought their livelihood was secure as well as to men who have barely enough to provide daily needs. They happen to women, too—to many of those brave persons who work to support invalid parents or younger brothers and sisters. No one who contributes to the support of a home is free from the constant worry of the things that might happen—unless he or she has Living Insurance, always ready to meet just such crises."

## *The Parallel Appeal*

THE scheme capitalizes the broad acquaintance of the public with life insurance. Indeed, the similarity of the two terms is calculated to snare the attention of the casual reader. Asserting that life insurance will provide for the security of the home after death, it draws the distinction that living insurance gives security to the home while the individual is alive and able to enjoy its full benefit. The parallel between the two plans of saving is closely drawn, but the bank insists that there is no substitute for "living insurance."

Like a good many business-getting ideas that have been adopted by financial institutions, the scheme of advertising living insurance as a service of a savings bank came from the outside. It was discussed around the conference table by the officers of the bank and developed into the finished plan. It has not been in effect long enough to tell how successful it will be, but the early returns have indicated to the bank that the idea has gone over and has put new emphasis on the necessity of building up a savings account as a source of real protection.

While the plan contemplates the creation of a substantial fund, the rate of interest that a mutual savings bank can pay is less than that which may be obtained from high-yielding securities. The Emigrant Bank does not discourage its depositors from withdrawing their funds for the purpose of making sound investments. Indeed, it employs an expert to advise those among the 294,000 depositors who seek counsel about the various investment proposals. While this expert will give the inquiring depositor his best judgment on any investment proposition, he recommends only those securities that the bank itself purchases for investment.

Another New York savings bank is seeking to capitalize the first-of-the-

(*Continued on page 102*)

# The Live Stock Industry and the Gold Standard

By MELVIN A. TRAYLOR
President, First National Bank of Chicago

**The Producer Must Plan a New Course. Smaller Herds of Higher Grade Cattle. The Return of Great Britain to the Gold Standard, in Which Our Federal Reserve Banks Helped, an Important Event for the Prosperity of the American Farmer.**

THROUGHOUT the entire period of depression, which began in 1920, the live stock industry has suffered perhaps more severely and continuously than any other industry in the country. A great deal has been said about the conditions of the live stock producer both in Congress and out. Many reasons have been advanced for the smash-up in the industry, and even more remedies have been suggested looking to the recovery and rehabilitation of the business. Perhaps all of the suggested causes were more or less correct, but personally I think it doubtful if many of the remedies have possessed any considerable merit.

Without any fear of successful contradiction it may be said with a good deal of emphasis that the fundamental causes—first, of the tremendous shrinkage in values which overtook live stock prices, and second, that have since contributed to their very slow recovery—are those with which we have been familiar throughout all our history and which have affected every line of endeavor in exactly the same manner when applied, as they were applied to live stock production. The facts simply are a case of overproduction, and following the war, a curtailed demand. As applied to cattle, figures indicate that for several years prior to the outbreak of the world war, supplies had little more than equalled the increasing demand of a growing population. In fact the number of cattle in the country in 1914 were less than in 1907, whereas, due to the demand of the world war and stimulated by a flood of easy money for financing the industry, the number of cattle other than milk cows in the country increased from 1914 to 1920 more than eight million head or about 23 per cent; whereas the population in the United States in this period increased only approximately 6½ per cent. Since 1920 there has been a substantial shrinkage in the number of such cattle in the country, and yet we find in 1925 that the estimated number of cattle is approximately 18 per cent more than in 1914, while the total population increase in the period of 1914-1925 is only about 13 per cent.

## We Consume As Much Beef As Ever

IN view of these facts, we could have expected nothing else than that when the war demand ceased and producers were thrown back upon the consumptive demand largely of our own population, we would meet a decline in values such as occurred in 1920. Nor is there any reason for surprise that prices have not improved in the period subsequent to 1920, because the supply has simply been out of proportion to our domestic demand, and we have not been able to recover any substantial export business for beef products. We hear a great deal of complaint these days about the American demand and criticism in some directions because the American people do not eat more beef, but the last figures available indicate that we are still consuming in excess of 165 pounds per person per year, which is no mean showing and quite the average, and it seems to me that we may look for little relief in that direction as long as our supplies continue in the quantity now available.

If we are correct in these fundamental facts then what is the future of the industry and may we hope again to see the producers of live stock rewarded in proportion to their investment and cost of production. It does no good to criticise the actions of those who financed the industry or of the producers themselves in what has passed. It may be admitted without argument that the financing of the industry, in the period from 1914-1920 particularly, was extravagant, unsound and even reckless, but there were two parties to the contracts for borrowed money, and the producer on his end was equally responsible with those who financed the industry for the foolish things done by both. In saying this it must be kept in mind also that in every other industry, and in every other line, borrowers and lenders were equally unwise and unsound, and we must keep in mind also that those in other activities suffered equally and in some instances perhaps more severely than did the lenders and producers in the live stock industry. That whole picture is of the past, and just as bankers and business men in other lines of activity have had to "right about face," clean house and plan along wiser and safer lines, so must the producer of live stock chart a new course for his future operations.

I would not undertake to prophesy as to what this new schedule will be, but looking back over some twenty years more or less intimate contact with the industry, it seems to me that there are a few salient facts which those who would engage in the enterprise in the future should not overlook. First of all, it will never again be profitable to operate large herds of mediocre stuff. Most of the grazing lands in the country, whether rightly or not, are now held at too high figures to ever permit successful operation after the old fashion, and the prohibitive cost of doing business in the old way, with the incident death loss and other wastage suffered by the big operator, are too tremendous to permit a continuation of production on that scale.

## Smaller Herds of Better Cattle

AS in every other line of activity, it seems to me that the future successful live stock producer will be that one who intensively and intelligently handles a smaller herd of the higher grade stuff, where personal attention and close application to every detail of the business will make it possible to turn out in the shortest period of time the most desirable qualities of stuff. I may be wrong, but it has always seemed economically unsound to me to continuously

(*Continued on page* 96)

## Service Rendered

*IF all the sins of omission and commission charged against the Federal Reserve System by banker, business man, live stock man or political blatherskite in the last five years were true, and practically none of them are, the service rendered the commerce and industry of the country and of the world by the system in connection with the restoration of the gold standard in so large a part of the world [Great Britain] would far outweight any mistake that those in charge of the system have made; and no banker business man or farmer should permit any self-serving declaration by favor-seeking demagogue to swerve him from a determination to see that the system is maintained and preserved for the future welfare of the business of the country.*—M. A. TRAYLOR.

# CARTOON VIEWS OF FINANCIAL EVENTS


*"A Sliding Scale Might Be Effective Also"—Alley in the Memphis Commercial-Appeal*


*"We Don't Know What in the World We'd do if it Wasn't for Our Rich Uncle"—Orr in the Chicago Tribune*

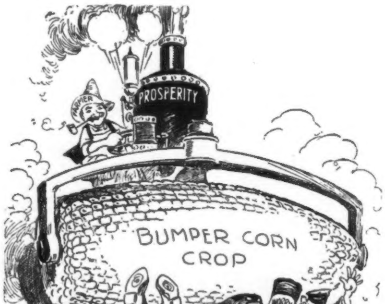

*"Danger, Go Slow"—Sykes in the Philadelphia Evening Public Ledger*


*"Been Out Wildcatting"—DeMar in the Philadelphia Record*

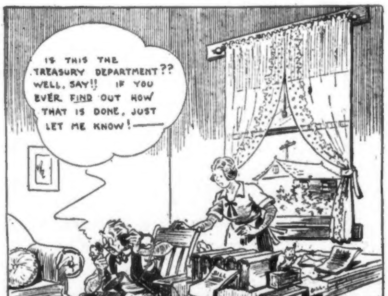

*"Who Cares!"—Sykes in the New York York Evening Post*


*"Bronc! I'm Going to Break You"—Morris in the Passaic Daily News*


*"A Little Too Early to Count 'Em"—Rogers in the Washington Post*




*"Ironing Out His Troubles"—Orr in the Chicago Tribune*




*"We've Long Studied the Same Problem"—Kuhn in the Indianapolis News*

# Community Property in California

By L. H. ROSEBERRY
Vice President, Security Trust & Savings Bank, Los Angeles

**Present Favorable Aspects of Inheritance and Federal Estate Taxes. Only One-Half of Net Community Property Is Subject Either To State or Federal Taxes. California Amends Her Laws To Attract Desirable New Residents. Further Changes Studied.**

EVER since its admission into the Union, California has had the "community property" system. Eight other states in the United States have a similar tax system. "Community property" is, in substance, legally defined as all property accumulated in California by married persons, during their marriage, except that which is acquired by gift, bequest or inheritance. Recently gathered pertinent statistics show that approximately 65 per cent of all property in this state is "community property." Such property in California enjoys the most favorable position in regard to death taxes, both state inheritance and Federal estate, of any state in the Union (excepting possibly the eight other states having a similar property system) including states boasting of no inheritance tax whatever.

This statement may seem paradoxical, yet it is literally true, due to the operation of the Federal estate tax. As a result of the combined effect of recent decisions by the United States Courts and supporting opinions by the two last United States Attorney Generals, the California "community property" system is recognized for the purpose of levying Federal estate taxes, and only one-half of it is now so taxed, while in Florida the whole estate of a decedent is subject to the Federal levy.

### How the Law Works

THE California inheritance tax law expressly provides that upon the death of either husband or wife, testate, only one-half of their net "community property" shall be subject to inheritance taxes. The same exemption applies upon the death of the husband, intestate, while the whole net "community property" is totally exempt from all state inheritance taxation upon the death of the wife intestate. The Federal estate tax law now follows precisely the California law in this respect, and in levying upon "community property" recognizes and gives the same tax exemptions as does the state of California.

As the result of an amendment made to the California inheritance tax law by the 1925 Legislature, this immunity from state inheritance taxes likewise now extends to so-called "community property" of non-resident married persons, who hereafter take up their legal residence in this state. A similar exemption to such property will doubtless be had from the Federal estate taxes as well. This puts "community property" of all married persons now having, or hereafter establishing, a legal residence in California, in a more favorable position regarding death taxes than exists in any other state in the Union, with the possible exception of the other community property states. This extension of community property exemption to the estates of new residents will conservatively add another 15 per cent to the present 65 per cent of all property in this state coming under this definition, which means that approximately 80 per cent of all property probated in California courts will enjoy the lightest death taxes in America.

To illustrate this advantage, the following concrete example is comparatively computed. The typical case is assumed of a man survived by a wife and two minor children, the estate consisting of "community property" and being all left, by will, to the wife and two children. Upon the death of the husband one-half of such property would go, under the laws of succession, to the surviving wife without any death taxes whatever, and the other half only would be subject to both state inheritance and Federal estate taxes.

As a subject of comparison, take a state which has no inheritance tax whatever. The total taxes as they would be assessed today under such circumstances on estates of different sizes, are shown below for California and a state, such as Florida, which has barred inheritance taxes. If the comparison were made with one of the many other states which impose inheritance taxes but do not have the "community property" system, the advantage in favor of California would even be more striking.

| | *Total Tax* |
|---|---|
| Estate of $100,000. | |
| California | None |
| No-inheritance-tax state | $500 |
| Advantage in favor of California | 500 |
| Estate of $200,000. | |
| California | 905 |
| No-inheritance-tax state | 3,000 |
| Advantage in favor of California | 2,095 |
| Estate of $400,000. | |
| California | 5,779 |
| No-inheritance-tax state | 13,000 |
| Advantage in favor of California | 7,220 |
| Estate of $10,000,000. | |
| California | 1,249,155 |
| No-inheritance-tax state | 2,543,500 |
| Advantage in favor of California | 1,294,345 |

If the two children were adults, the California tax would be increased only $280 in each case.

### Another New Amendment

ANOTHER attractive feature of the recent amendment to our inheritance tax law, scarcely less important than the one relating to "community property" is a new section fixing the inheritance taxes on stock in California corporations owned by non-residents at a flat sum of 2 per cent on their actual value. This is, indeed, a very reasonable tax. When considered in conjunction with the present ruling of the California Inheritance Tax Department based upon a decision of the Supreme Court that no inheritance taxes in this state will or can now be levied upon any stock in foreign corporations, or upon bank accounts, bonds, notes, debentures, or similar securities belonging to a non-resident but located in this state at the time of such non-resident's decease, it will be observed that at present the inheritance tax situation in California is most favorable, both to non-residents who have property in this state and to married people who live here or who may subsequently move here from elsewhere.

The importance of a just and economically sound system of "death taxes" can scarcely be overstated, yet it is probably less important than a just and sound

### California's Case

*THE favorable aspects of tax systems are now among the most highly prized assets of our states. In this article, the author points out how California, which has never had a state income tax, cuts death taxes—state and Federal—nearly in half by the "community property" system. A recent amendment to the law opens the door so future residents in the golden state can take advantage of it. In a recent Journal article, Assistant Secretary of the Treasury Dewey, voicing the need for death tax reform, stated a hypothetical case involving California inheritance taxes which might have been levied in 1920. Since that time, the laws have been changed so the author asserts the figures do not correctly represent the present situation and feels the nation ought to be put right. So here California states her case.*

system of "living taxes" on the property of citizens, both individuals and corporations, and on that of non-residents, which may be the objects of local taxation.

California's present position in this matter not only compares favorably with most of the other states, but it is being molded to harmonize with her present public requirements and with sound economics as rapidly as is justified by experience and careful study.

California has not now nor never has had a state income tax.

## *A Unique Tax System*

WE have a form of property taxation which exists in no other state in the Union. There is a complete separation of state and local taxation. The state alone collects taxes from corporations; public utilities are taxed upon the gross revenue of their operative property; banks upon their capital, surplus and undivided profits, less their assessed values of realty; insurance companies upon their gross premiums and general corporations upon the value of their franchises. All other taxable property is assessed and taxed for local purposes only. Therefore, the general property tax payer does not directly pay any state tax at all.

It has consistently been the policy of that state to fix the rates which the various corporations pay on a basis intended to make these rates as nearly equal, as humanly possible, to those levied for local purposes on general property.

The California State Board of Equalization, in its last report for the fiscal year ending June 30, 1925, states:

"The average tax burden for the single year 1924 upon each $100 of actual value of property taxed for local purposes, all communities included, has been determined by this board to be $1.88, or 1.81 per cent. Property taxed in California on an ad valorem basis is not assessed at its full market value; in fact, is assessed on an average of a little less than 50 per cent of its market value." The actual computation by the State Board of Equalization of the average assessment for the year 1924 is 45½ per cent of the fair market value of the property assessed. Since the existing rates on California corporations were fixed in 1921, and have not been changed subsequently, and since these rates were fixed at that time on an ad valorem basis of 1.63 per cent, while the average state wide rate on general property in 1924 has been compiled at 1.81 per cent, it cannot be claimed that corporations are unduly burdened with taxation in California, especially considering the great material growth of the state during the last four years. Under an old constitutional provision, all stocks of California corporations, mortgages upon and bonds secured by real property located in this state are exempt from all taxation to the owner.

## *Taxing*

OF major importance among the many favorable tax laws of California is the recent constitutional amendment, and the enabling act calling it into effect, levying a very low tax upon taxable "domestic" and "foreign" stocks, bonds, notes and solvent credits owned by residents of California. The maximum assessment which any tax assessor in California can now make upon such intangible property, whether they be so-called "domestic" or "foreign" stocks, bonds, notes, and solvent credits, is 7 per cent of the actual cash value thereof. Upon this low assessment value the regular local city and county tax rate is then applied and the result is a very low tax, comparing favorably with similar taxes in any of the other states. This may be better explained by the following illustration: Assume a $1,000 face value eastern bond, with an actual market value of $1,000:

| | |
|---|---|
| Maximum assessed valuation for tax purposes, 7 per cent of $1,000 | $70 |
| Combined Los Angeles city and county tax rate for 1924 | 3.70 |
| Amount of tax | 2.59 |

Is this an excessive tax?

It may not be amiss here to correct another false impression regarding California's tax laws.

Intangible property physically located in this state but not employed in active business, belonging to a non-resident, is not subject to any form of property taxation. Of course, real property, regardless of the domicile of its owner, is taxed locally, following the rule in all states in such cases.

That the above given average tax rate for 1924 in California of $1.81 per $100 on the actual value of the property taxes is by no means disproportionate to tax rates prevailing elsewhere, is indicated by comparative data of tax rates in the different states as published by the United States Bureau of Census in 1924 and covering the year 1922. This gives the tax rate per $100 of assessed valuation in Florida at $7.64 and California at $4.25.

In most states the legal basis of assessment is 100 per cent of the true value. Giving proper allowance, however, for the 50 per cent basis in California and crediting Florida with this same basis it would show that at least for the year 1922, the average tax rate on taxable property in California was more than 40 per cent lower than in Florida.

## *Not in Competition*

IT is not intended to convey the impression that California is attempting to meet the competition of other states in tax exemptions, for such is far from the truth, but our plan of the state taxing corporations exclusively for its revenue, leaving to the local governments the exclusive taxing power over real estate and certain classes of personalty, is not based upon any plan intended to be competitive with other states. The system was originally conceived and is now being reconstructed with a view of producing adequate revenues for the economical yet efficient administration of public affairs, and the promotion of peace, health and prosperity for our citizens and our guests.

No state can properly serve its citizens and at the same time perform its public functions without adequate revenue; to do less than this, in the long run, will stifle its economic growth and its industrial and agricultural development; and this in turn will make such a state unattractive for outside capital and desirable newcomers.

There is now in California a definite movement sponsored by organizations representing diverse and substantial business interests aided by patriotic public officials, which are carefully studying public expenditures, the present and future requirements of both state and local governments and conducting a scientific and broad research of theoretical and practical tax systems of all kinds, with a view of reducing the number of taxes and simplifying methods for their collection, reducing unnecessary costs of government and devising a corporation, property and inheritance tax system for the state economically sound, simple for the tax payer to understand and for the public official to administer, reasonably inviting to outside capital and desirable non-residents and equitable in its application to all species of taxable property within its jurisdiction, yet able to produce sufficient revenue, economically expended, to place California in the first ranks.

## *Pacific Coast on Eve of Expansion*

THE Pacific Coast, and California in particular, is on the eve of an industrial expansion even greater than the remarkable progress in the past. Until recent years, its development has been to a great extent in agriculture and the production of raw materials, but forces are now at work which will bring about the creation on the Pacific slope, and particularly in California, of a great manufacturing establishment. The rapid increase in population and the potential domestic market; the improvement of ocean transportation, harbors and development of foreign markets, the favorable factors of fabrication at the base of raw materials, combined with such manufacturing advantages as "the American plan" of labor in our local industrial system, a favorable working climate and large power resources, both petroleum and hydroelectric—all will assist in the industrial development of the West.

While these economic processes are going on, California is intelligently revising her system of levying and collecting both "living" and "death" taxes so that they will be on a sound basis and at the same time compare favorably with the tax systems of the other states.

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# Convention Calendar

| Date | State Association | Place |
|---|---|---|
| Sept. 15-16 | Kentucky | Louisville |
| Sept. 16 | Wyoming | — |
| Sept. 16-17 | Indiana | West Baden |
| Sept. 21-22 | New Mexico | Las Cruces |
| Oct. 21-22 | Nebraska | Omaha |
| Nov. 6- 7 | Arizona | Phoenix |

Other Associations

| | | |
|---|---|---|
| Sept. 28-Oct. 1 | A. B. A. | Atlantic City, N. J. |
| Oct. 14-16 | Financial Advertisers' Association | Columbus, Ohio |
| Dec. 2-5 | Investment Banks Assn. of America | St. Petersburg, Fla. |

# Investing for the Modest Trust

By D. W. HOLGATE
Trust Officer, The United States National Bank of Portland, Portland, Ore.

**Funds at Best Advantage When Divided More or Less Equally Between Bonds and Mortgages. What Will Happen to Market for Tax-Exempt Bonds When Federal Income Taxes Are Cut? Should Banks Make Up Portion of Loss from Failing Investments?**

IT is in making investments from funds held in trusts involving modest sums of money that the greatest difficulties of banks and trust companies arise. If we can solve the question of proper investments for such trusts, where the prompt receipt of as large an income as can be realized is vital, and any depreciation in principal a calamity, we shall have no great difficulty (aside from the question of taxation) in meeting the problem of investment of funds in trusts where the income to the beneficiaries is large and the temporary failure of income from one or more investments, or even a loss in principal, is not of such vital concern.

The usually accepted elements of an ideal investment are: Security of principal; stability of income which ideally should be as inviolable as the principal, certain to be paid promptly, at regular intervals, and in predetermined amounts; marketability; value as collateral; tax exemption; exemption from care; acceptable duration; acceptable denomination; potential appreciation.

### Limited in Investments

LIMITED as we are by laws, the terms and conditions of the various trust arrangements and our desire to avoid liability, we have not the latitude of the ordinary investor who at his own discretion may take what hazards and chances with his funds his financial standing and judgment may warrant. The usual criticism directed against us is that we are too conservative, but as in our capacity of executor or administrator we have occasion to review the personal investments of the average business man, we become more and more convinced that safety first, last and all the time is the best policy with a trustee.

Practically all of the states have set up a fixed standard for the guidance of trustees in investing, but these statutes are of little assistance to us in the matter of determining the degree of safety expected; on the other hand they do hold a threat of liability over the trustee. As a general matter, we are practically confined, in our investments, to certain classes of bonds yielding a rather low rate of return and real estate mortgages or bonds based upon real estate mortgages as security. As to which constitutes the better investment is a time-honored question that has been debated again and again with no apparent advantage ever resting with either side. It is believed from the standpoint of that which we desire to accomplish, the funds of such trusts are invested to the best advantage, under present conditions, when divided more or less equally between such bonds and mortgages.

Just what is giving us the greatest concern as we are investing these funds?

We want to be certain that there will be no loss in principal.

Assurance is desired that as each month or quarter rolls around the interest necessary for beneficiaries' use will be on hand or positively forthcoming.

In the case of trusts wherein we may be required to dispose of the investments prior to their maturity, we want to be reasonably sure there will be a ready market at practically the same price as paid.

We do not wish to be burdened with an unreasonable amount of labor and responsibility in caring for the securities.

We desire the satisfying knowledge that we have secured for the trust the largest return that can reasonably be expected.

We wish to feel assured that such investments as we desire are readily available so there will be no loss of income through failure to keep the funds working.

### Bond Return Is Prompt

AS to ultimate return of principal there appears to be no particular degree of safety in the choice of a well selected bond over an equally well selected mortgage, or vice versa. Statistics tell us nothing of value. One well known authority makes the statement "no one conversant with bonds and mortgages will deny that American municipal bonds have been, for the last twenty years, a safer investment than American real estate mortgages," while another claims that as a matter of final ultimate security, taking into account all possible factors, the mortgage has the advantage.

The bonds should be relied upon for the assurance of prompt receipt of income, as in the case of the class of bonds we have in mind, any delinquency in interest is out of the ordinary and its payment upon the due date a mere matter of routine. In the mortgage investment, we are dealing almost entirely with individuals and the prompt payment of interest on their part is contingent on the vagaries in character and fortune of the various mortgagors.

Bonds also have the advantage as to marketability, although as a matter of practice we find that where we are required to sell one or more mortgages out from one trust, we usually are in a position to take them over in some other trust or trusts and at the face amount.

In securing an investment requiring the minimum labor and responsibility in its care, the bond again is the more desirable.

With us, in the matter of return of income, the mortgage has a considerable advantage. We are still able to secure satisfactory mortgages at interest rates of 6 and 7 per cent, notwithstanding the keen competition that has arisen from the mortgage loan companies, the insurance companies, and others, while it is but seldom we are able to find a bond, meeting our requirements, that will yield up to 5 per cent.

There is, however, one field of bond investment which has been coming more and more into favor with those handling fiduciary funds. I refer to the bonds of the public service corporations, particularly to those dealing in electric light and power and gas. The services which these companies render are absolutely essential to modern life and are being required in increasing volume each succeeding year. Due to the wonderful advances made in the science of these industries, they are constantly perfecting improvements which cut down their cost of operation and permit them to lower their rates to the consumer while earning more money. The credit record of these industries is exceedingly good, and I believe we can invest our funds without hesitation in the senior securities of those companies which operate in the more populous, growing and diversified sections of our country. In this field we can secure from five to five and one-half per cent return for our funds and at the same time a very high degree of safety.

### Many Factors to Consider

SO many factors enter into the investing of trust funds that it would be unwise to attempt to outline a general policy. Each trust should be studied with great particularity as to its terms, a comprehensive knowledge should be had as to just what the trustor had hoped to accomplish by the trust, and as full information as it is possible to obtain secured as to each beneficiary. Then can be determined in a general way the present investment policy as to that particular trust, although each purchase under such trust should be treated as an individual case. However, to secure the best results and to meet the requirements of the ordinary trust under present conditions, an intelligent diversity between mortgages and certain classes of bonds should be made.

The hazards to be avoided in making investments are admittedly numerous. At present the greater part of the bonds which are a legal investment for trust funds under the laws of most of the Western states or in which we would usually invest in cases

where we are given full discretion in investing, are selling at such a price, especially those which are tax exempt, that it would appear any drastic cut in the national income tax rates might seriously affect the market as to such bonds. It is well to have this in mind when investing as we are well aware of the taxation policy of the present administration. A different view of this situation, however, is held by some authorities.

As with the bonds, the hazards to be encountered in the making of mortgage loans are well charted and the charts are available to all who will read them, but it is felt that mortgages have a very definite purpose in the scheme of trust investments, and if they are to accomplish such purpose, certain practices always should be observed:

Avoid making loans on buildings constructed for special purposes.

Be very careful in keeping residence loans restricted to those of not too pretentious a character. Regardless of the amount loaned, the "mansion" is apt to be a white elephant.

Do not loan outside your own immediate territory.

Confine your loans, if possible, to the actual home owners, instead of making the original loan to builders and letting subsequent purchasers assume it.

Know your district, observe the changes taking place from time to time, and spend some thought in trying to forecast its future.

Investigate your mortgagors. For this reason it is believed to be the better practice to make loans ourselves than to purchase the mortgages.

Keep your percentage of loan as against appraised value consistently low.

The type and age of the dwelling should be carefully considered. Beware of the freak in architecture as well as in location. Always remember you may have the house to sell or rent.

Train your mortgagors to meet their interest payments promptly. Notify them in advance and promptly follow up all delinquencies.

Do not be too precipitate in foreclosing. Many an embarrassment is avoided and loss prevented by persuading the delinquent mortgagor to sell and assisting him in finding a purchaser.

As stated at the outset it would seem that our most serious problem in investing will arise from the funds of trusts wherein the income, at the best, will no more than provide for the reasonable necessities of the beneficiaries. As our business develops, becomes better known and of more popular use, trusts of this character will become more numerous. Consider such a trust wherein the beneficiary or beneficiaries may be in the dependent class, such as children, the aged or infirm. There must be no failure of income and no loss of principal. On the other hand, we are not doing our full duty or justifying our existence by playing safe and purchasing some apparently perfectly secure investments with a low yield, when we have the power, as we usually have, and the facilities to secure investment information, as we should have, to secure investments yielding a quarter, a half or one per cent more for the use of the beneficiaries.

### *A Reserve for Losses?*

NOW after having used our best efforts and thought in investing such funds, should there occur a failure of income or a loss of principal, what are we going to do? Are we going to tell such beneficiaries that we have done the best we could for them; that we are under no liability and that they will have to get along the best they can, or are we going to advance the income and make up a portion or all of the principal loss? In some of such cases, it is probable we shall feel called upon to extend help. Should such practice become general, however, the courts and the public would gladly seize the opportunity to declare it a general custom and we would find ourselves in the position of being guarantors of our trust investments. Where the earnings of the various trust institutions justify it, would it or would it not be a good policy to set up a reserve to be used in caring for such cases as those cited above.

Regardless of our desire to avoid any unnecessary liability, it is believed that each trust prospect is entitled to a full explanation of the usual powers and duties given to and assumed by the corporate trustee and as to just how his beneficiaries may be affected by a policy of giving the trustee full discretion in investing on the one hand, or restricting it to the legal or a certain stipulated line on the other, and in a great majority of the cases we find that they will insist upon the trustee assuming the responsibility of a full discretion.

In a number of states, the trust companies are endeavoring to have the laws relating to legal investments for trustees amended, and their scope enlarged, and it would seem that this is a move in the right direction. The present legal lists were compiled with the thought that they constitute as near an approach to absolute safety in investments as it is possible to obtain, but experience has shown us the fallacy of this, and if we are conscientious we must exercise almost as much discretion in making investments from the legal list as without its scope. There is no question of the necessity of such laws, but they could with propriety be amended from time to time to meet the changing conditions as to investments and at the same time afford the necessary protection to both the fiduciaries and to those who benefit from the trust.

There is a growing tendency to broaden these lists to include more and more the bonds of public utility companies. The services which these companies render—electric light, power, gas, telephone, water—are absolutely essential to modern life. Their earnings show little tendency to fluctuate or decline in periods of depression. We have to be pretty hard up before we order out the telephone or cut off the electric light. A study of the earnings record of almost any power company shows a steady increase year after year in gross and nearly every year in net.

The far-sighted policy of the public service companies in educating the public to a sympathetic attitude toward their business through their campaigns of publicity and through the untold influence of their customer-ownership plan has undoubtedly precluded the possibility of their getting into the plight the railroads brought upon themselves through their former "public-be-damned" attitude. Nor does there seem to be anything on the horizon likely to cut into their earnings as the automobile and truck have done to the railroads. By the corporations adopting a policy of taking their customers into partnership on the one side and the states regulating the amount of capital and bond issues and the rates on the other, it would seem the industry and the public are equally well protected.

Therefore, it seems to me that we can improve the income return from our bond investments by the judicious selection of the obligations of the stronger utility companies. In this selection I would confine myself to the companies operating in thickly populated and growing sections of the country, and where there is as wide a diversity of industry as possible. This latter factor is especially important in the selection of electric light and power securities. The steadily growing use of electric power in the industries is the most important factor in the amazing growth of the earnings of power companies in recent years. Electricity is consumed as manufactured. It cannot be stored. A power company's greatest operating cost is the interest on its plant investment. The more hours a day this plant can be made to produce, the greater the net earnings. The company in the territory with the greatest diversification of industry will have the most stable earnings, and offer the safest security in this field of investment.

## Los Angeles Bids for 1926 Convention

LOS ANGELES is the first city to extend a bid for the 1926 convention of the American Bankers Association.

J. A. Graves, president of the Farmers & Merchants National Bank, as president of the Los Angeles Clearing House Association, early in June sent a telegram to William E. Knox, President of the American Bankers Association, inviting the bankers to hold their fifty-second annual sessions in the California metropolis. Assurance was given that a cordial welcome and ample entertainment would await the members of the Association.

The annual convention of 1921 was held in Los Angeles. Since that time, the city has enjoyed an impressive growth and the local bankers are hopeful that they may play the role of hosts again to show the development of Los Angeles and southern California.

### Financial Advertisers' Convention

Columbus, Ohio, will be the scene of the tenth annual convention of the Financial Advertisers' Association on October 14, 15 and 16. The general sessions will be devoted exclusively to the development of financial business through advertising. One full session each will be devoted to investment advertising, saving advertising, commercial bank advertising and to trust advertising.

# Conserving Estates Through Life Insurance Trusts

By THOMAS C. HENNINGS
Vice-President, Mercantile Trust Company, St. Louis

**Continuing Income Rather Than Shower of Money for the Beneficiary is Best Protection. Funded Trust Enables Young Man to Create Estate of $40,000 by Depositing $15,000 in Securities. Flexibility of Insurance Trusts Makes Them Better.**

THE greatest instrumentalities of thrift in this country today are the banks, trust companies, and insurance companies. The banks and trust companies are stressing the idea that it is necessary for any one who wants to succeed to set apart a portion of his earnings or income, deposit it in the bank as savings, and use a part of the savings for the purpose of buying life insurance to take care of the responsibility and obligation assumed in caring for his family after he has gone.

The insurance companies in the United States in 1913 had an aggregate amount of insurance in force of $15,500,000,000. In eleven years, from 1913 to 1924, that has been increased to over $600,000,000,000. New insurance has kept pace with increased savings accounts in our different institutions.

Last year the insurance companies wrote new insurance amounting to $13,650,000,000, almost as much as they had on their books in 1913. If we ignore the thirteen billion and think of the six hundred fifty million part of the total, we can see that with such a vast sum of money, a Woolworth building could be built on every block composing the downtown district of our large cities.

## *Payable in Lump Sums*

NOTWITHSTANDING that fact the insurance companies for twenty years have been stressing the necessity of changing the insurance policies from lump-sum insurance to income installment insurance, 90 per cent of the insurance written today is payable in lump sum. Only 10 per cent is income or installment insurance. The insurance companies this year will be called upon to pay about six hundred million dollars to their beneficiaries. That means there will be $540,000,000 paid to widows and children who have no financial experience, many of whom will receive their insurance check and a fake stock, or oil prospectus in the same mail.

Ninety per cent of the proceeds of insurance policies of less than $5,000 are either used or dissipated within five years. We must impress on the insured that whatever is intended to take the place of income, should be paid out as income, and that the beneficiary should receive that income and not a shower of money. The trust companies have been developing this line of trust insurance by advertising and talking the need for life insurance and the creation of insurance trusts.

The insurance companies are educating their salesmen to be not mere deliverers of policies, but to be conservators of insurance proceeds. The insurance companies and the trust companies are working together to develop this particular phase of insurance, which is one of the greatest trust developments of recent years.

A committee of the National Association of Life Underwriters has conferred a number of times with a committee of the Trust Company Division of the American Bankers Association attempting to arrive at a common basis for working together. These committees have accomplished much toward the development of a common understanding.

This is a great field for the reason that where one man has a $50,000 estate you will find one hundred men who have $50,000 worth of insurance. It is generally conceded by both trust and insurance officials that a trust company's service begins where that of the insurance company ends. The duties of the insurance company are to create and those of a bank or trust company to administer those estates. There is much truth in the statement that 85 per cent of the estates—that is, money left by decedents in the United States—consists of proceeds of life insurance policies.

## *Forms of Insurance Trusts*

THERE are several forms of insurance trust. One is the passive trust. The donor creates a trust under which he either deposits or holds the insurance policies made payable to the bank or trust company and creates a trust with a provision that the proceeds are to be used for the payment of debts, administration expenses, inheritance taxes and, after that, the balance paid over to the beneficiaries. That is a simple form of trust.

Second is the unfunded trust. The donor creates a trust, provides for the collection of the proceeds by the trust company, to be held under the trust agreement which usually provides for the payment of income to the wife or children during their lives or for a fixed period, makes a provision for the payment of a certain sum to the girls when they marry, or the children when they attain a certain age, or the boys when they desire to enter business, and then for the payment of the balance of the proceeds after the termination of the trust to some named person, persons or institution.

In a funded trust the donor deposits securities with the trust company, directs that the income received by the trust company shall be used by it for the payment of life insurance premiums on the policies in which the trust company is named as beneficiary, upon the death of the donor the insurance proceeds to be used in the same way as under the unfunded trust. There is some danger to the institution handling a funded trust, in case there is not sufficient income received from the trust funds or in case there should be a failure on the part of the institution to pay the premiums when due. However, that contingency can be very readily taken care of by provisions in the trust agreement that in the event the income is not sufficient to pay the premiums the trustees shall have the authority to sell some of the securities held in the trust fund for the purpose of paying the premiums.

## *Advantage in Funded Trust*

THE advantage in the funded trust is this, particularly to a young man, a man between thirty-five and fifty: he realizes that, when he has purchased insurance and has assumed a debt payable in installments covering a period of ten or twenty years, or during his life, this is an absolutely fixed liability which must be met. If he deposits securities to the value of $15,000 in trust, he can secure about $25,000 life insurance from the income received from his $15,000 trust, and the day after he receives his insurance policy his estate is worth about $40,000; while if he went through the long, tedious practice of investing $15,000, depending upon his ability and perseverance, investing the income and adding it to the fund, in about twenty years he might accumulate as much as $25,000.

The advantage of the insurance trust over the average installment or income policy is that it does not make any difference how many options the insurance companies may offer; the contracts are inflexible and must be carried out as written, while on the other hand, there is nothing in the law that is as flexible as a trust. It makes no difference what the donor may have in mind, he can accomplish it under a trust, provided the provisions are legal.

(*Continued on page* 114)

# The Only Method to Preserve Independent Banking

By C. A. CHAPMAN
President First National Bank, Rochester, Minn.

**County Clearing Houses and Bureaus of Credit Will Furnish the Means for Placing Home Banks on a Basis Free from Present Weaknesses. The Best Security Against the Spread of Branch Banking. The Banker Who Insists Upon Going it Alone.**

THE accomplishments of American banking in frontier days and in the later years of our national development have marked our individualistic banking system as without doubt the greatest scheme of financial exploitation of which we have any knowledge. It was required as an accompaniment to an age of exploitation of natural resources incomparable in the world's history.

Every new town founded upon a new line of railway or in anticipation of such a fortuitous location either found a bank awaiting it or assigned at the very outset a choice corner in the prospective business district for a banking location. Sometimes not one but several banks responded to the demand, divided the patronage and shared the risk of a new community peopled with adventurers and Micawbers.

Three generations of development along these lines led to a general survey of the entire banking situation by all the interests of the nation and a demand for a finer systematization, closer organization and, above all, recognition of the spirit of cooperation.

Out of this demand came the Aldrich Currency Commission and its comprehensive studies. The bankers' panic of 1907 finally produced the Federal Reserve System. In an age of cooperation and cooperatives, the Federal Reserve System is without doubt the greatest "cooperative" in the world. It is admirably fitted to accompany the development in cooperative effort in industry, in agriculture, in commerce, in education and wherever the employment of cooperation seems essential for handling modern problems. These problems are due to the frictions and closer contacts of a denser population and a more intensive type of living and material production.

The public discussions and debate upon the subject of banking have not been concluded with the setting up of the Federal Reserve System. Instead there has gone on a critical inquiry in three particular directions, (a) the need of greater safety for funds in banks, (b) the need of better service from banks, (c) regulations of compensation for banks.

### *Forerunner of the Guaranty Law*

THE question of safety or security was naturally the one of chief importance and the first one calling forth definite proposals. The New York safety fund was the forerunner of the now well known theory of "guaranty of bank deposits." The theory at its inception, taking as it did the form of insurance with adequate examination of risk, the setting up of appropriate reserve, the continuation of inspections and the principle of mutuality, seemed sound and scientific. The clumsy expediency of politics, however, divested the plan of its safeguards and reduced it to a simple fiction of "dangerous instrumentality and absolute guaranty." The conception of the original progenitors of bank guaranty in Oklahoma was that banking is inherently an iniquitous business, and that those engaged in it should be required to go each other's bail and be subject to summary proceeding at all times.

Thoroughly and fully tried by friendly administrations in a dozen states bank guaranty has utterly and completely failed in all the things claimed for it. While safeguarding at times and under certain conditions some of the depositors in some of the states, it has jeopardized the whole structure of banking in guaranty states and arrived finally at a mathematical impassé which prevents its paying its debts. Bank guaranty is insolvent; those who hope for absolute security for bank deposits are compelled to look in other directions. They will be compelled to concede there is no such thing as absolute security.

### *Inconsistent Demands*

BANKS are essentially institutions of risk, and risk imports loss. Such risks may be enlarged and increased by the introduction of new moral hazards as in bank guaranty, and when such risks are so enlarged the reserves provided by any system of guaranty will be found wholly inadequate. The very clients demanding absolute safety for their credits deposited in banks are the ones who on the same day demand that the same bank accept risks in the launching or conduct of their business ventures, the successful outcome of which cannot be foreseen.

Prior to the experimentation of bank guaranty and accompanying and following upon the conversion into state and national institutions of the large number of private banks, there was set up a system of national and state supervision over banks which is the only safeguard coming out of the old day which still obtains.

Unfortunately both bank guaranty and bank supervision, especially in the states, have been tinctured with politics. Men of varying degrees of capacity, morals and experience have been intrusted with offices of supreme importance both to the banks and to the public. Usually the personnel assigned to the work of examination has been inadequate, notwithstanding that the cost of supervision has been laid practically in its entirety on the banks. Very much must be said, however, in praise of the present system of examination safeguarding our national and state institutions throughout the country. Those who are convinced of the essential weakness of bank guaranty and the impossibility of its functioning at any time under any conditions turn again to supervision as the only safeguard of proven value.

### *Approach from the Outside*

NO safety fund, no system of bank guaranty and no system of supervision can fully correct the misdirection of banking activities which periodically brings us to grief. The reason is that such correctives approach banking from the outside with compulsion and do not have that perfect measure of sympathy and concurrence from the banking fraternity which is required for successful results. What is needed for enlarged security and safety is a new attitude on the part of the bankers toward the trusts reposed in them, toward the resources placed in their hands and the elements of strength which would be made available by cooperation and mutuality among themselves. This spirit must take the place of several which have heretofore controlled banking.

Due to its trust character banking is no place for predatory competition. There has been a great misconception on this score, and the public must learn its error. Multiplying the number of banks does not enlarge the credit power of the community nor that of any individual in it. Rather it reduces the earning power of the individual banks and their financial ability to sustain losses without impairment of capital.

The individualism which has characterized American life has had to yield gradually to the exigencies of an older and denser population. All have had to pay some part of the price of society, which the sociologist tells us is mutual concession.

(*Continued on page* 108)

# Some of the Major Problems

By JAMES E. CLARK

THERE is probably no hamlet in the United States so remote, and so buried in the sticks, that it does not use in its daily life many articles which have been built wholly, or in part, with materials imported from the far corners of the world. But our dependence upon other countries for the things we do not produce or, if producing them, do it with comparative inferiority, is not a thing to be regretted. If we want to sell to the world, we must perforce purchase at least certain things of the world's offerings, with preference for the articles our own people are not growing or making.

And so ships come in on every tide laden with things we want, and there is nothing marvelous in all that; but the arrival in the Detroit River the other day of a deep sea ship with a cargo of steel rails from Antwerp, Belgium, for the Ford Motor Company, serves as a new reminder of the possibilities of competition from countries abroad where the standard of living is lower and the urge for the necessities of life is perhaps stronger than it is here in the United States.

If, however, there is any real cause for apprehension on the part of our workers from the circumstance that Belgian rails are unloaded in Detroit from the ship on which they were loaded on the other side, there should be a bit of comfort in the reflection that the ship which brought the rails probably did not return in ballast.

Making more than we can use, and raising so much that sometimes a crop is abundant to a ruinous degree, let those fearful of the encroachment of foreign labor on the workingmen of the United States consider the cargo which goes out as well as that which comes in.

The arrival of the steamship referred to, the *Anders*, inaugurated a direct monthly service between Antwerp and Dutch cities and the city of Detroit, thereby linking a little closer together the American Central West and the European West Coast.

## Loans and Opportunities

COMPARED with some flotations since the war, the Australian loan of $75,000,000 is modest.

It is especially modest when compared with the loan to Japan and with the natural resources of the latter, for Australia is a country whose area practically coincides with that of continental United States. We have an area of 2,973,774 square miles and Australia has an area of 2,974,581 square miles.

And there is a strange bit of similarity between development conditions in Australia today and the history of the United States of a few years ago.

There was a time when our population was mostly along the Atlantic Coast and many men then could see no future in what we call the Middle West and the Far West. In their opinions, a wilderness it was and a wilderness it always must be. But, happily, there was another school who saw, though dimly, such a picture as the West presents today, a region of strong, vigorous, beautiful cities, a development in some respects more ideal than is to be found in some sections of the East.

A returning traveler recently reported a somewhat similar condition of public mind among Australians, one group of whom are optimistic over the potential possibilities for development and are opposed by another who, like our pessimistic American forebears, look with hopeless eyes upon the great stretches of wild land in the interior of the Australian continent and are inclined to be impatient with those who have the hardihood to lift it, even in imagination, out of its wild state.

In the development of our own continent, British capital found such abundant opportunity that it was not until 1914 that the flow of investments from the Old Country ceased. With three-fourths of a billion of Australian acres either unoccupied or occupied by the Crown there may be opportunity corresponding to that which our own continent offered a few generations ago. How great the possibilities are may be suggested by the fact that, though Australia's area approximates our own, the population according to recent census figures was less than 6,000,000 persons.

## Sees the End of Isolation

"THUS far," observes a London economist, reviewing America's foreign loans during the first four months of 1925, "for every £1 raised on foreign account in London, £5 was raised in New York. The full significance of this diffusion of American capital throughout the world, and especially in the Continent of Europe, has nowhere been grasped, least of all, it would seem, in America itself. A policy of 'splendid isolation' in international affairs cannot be maintained while individual American investors have such an immediate and valuable interest in the peace and prosperity of the old world."

Thus it appears, looking westward from London, that isolation is a thing of the past. But the barriers are far from being broken down. American investments in Europe do not necessarily mean more participation in European politics than did British investments a few years ago mean participation by Britons in American politics. Britons made many investments which were good and needed little watching, and a few investments in which judgment was misplaced, but in neither case did these investments bring about the kind of entanglements from which George Washington warned us to keep aloof. Investments need not mean the end of isolation and the beginning of an era of participation. Rarely does an investor who takes a mortgage on a house want to run the establishment.

The spirit of the forefathers is still strong and virile in America. It would be difficult to so eradicate the teachings of Washington that the average American citizen—who, after all, is the custodian of his nation's policies—will fail to sharply discriminate between the care of investments abroad and those "entangling foreign alliances" against which the Father of his Country warned his fellow citizens at the birth of the Republic.

## A Loan to the Soviet

THE Moscow correspondent of *The Statist* of London reports that much has been heard of late of negotiations for a loan to the Soviet government from Germany. A Russian Finance Commission has been appointed with Alexander Swanidse—who was Financial Commissioner for Soviet Grusian and the Trans-Caucasian Republic — as Agent-General and the headquarters of the Commissioner are in Berlin. The official announcement says, "Financial Commissary Swanidse is carrying on negotiations with the leading German banks with a view to a credit operation. Furthermore, he is entrusted with seeing to the quoting of the chervonetz on the German markets as also the German mark on the Moscow Stock Exchange."

Rumors in Russia of great foreign loans no doubt have a stimulating effect in certain Russian quarters, even though the rest of the world knows of the impossibility, from the present outlook, of loans forthcoming from America, Great Britain or France. Still the possibility of a loan from Germany opens up a fertile field for conjecture, and when it is recalled that, despite Reparations and all the other burdens, Germany has reduced her income tax, Russia may have something on which to base hopes, though presumably rather restricted hopes.

With Russia cut off from intercourse with the great nations of the world, Germany might come to see a strategic trade advantage in granting credits, which advantage might outweigh other obvious considerations.

## One Side Exposed to Attack

THE cost of establishing and maintaining Clearing House Associations, a Clearing House Examiner System or a County Credit Bureau is not the first thing to be considered by the bankers upon whom these institutions are being urged.

A better consideration would be the cost to banking in the form of losses which might have been prevented by the functioning of these institutions.

The cost of maintenance is comparatively small, but the cost of doing banking busi-

ness while, in a sense, one side of the banking house lays open and exposed to attack is large.

The changing conditions of life in America make it imperative that banks shall set up that protection against loss which comes from the establishment of the credit bureau. Good roads and speedy automobiles have so widened the territory of every bank that the old methods which once were sufficient for a banker in a small place are no longer adequate to give him full knowledge of those with whom he transacts business.

The full discharge of his duty to his depositors, his stockholders and his board of directors, demands that between his bank and the dangerous duplicate borrower there be set up the safeguard of the credit bureau.

The 9600 member banks of the Federal Reserve System last year charged off net losses of $153,614,000, an average of over $15,900 per bank.

What small portion of these losses might have been prevented through the existence of a network of credit bureaus throughout the country is problematical, but the mere fact that so great a loss stands against banking ought to move bankers to set in motion every piece of machinery that is available to reduce risks.

# How Bryan Shaped Parts of Federal Reserve Act

WILLIAM JENNINGS BRYAN waged a lost cause when he sought to convert the United States to a policy of bi-metallism but at least two distinctive features of the Federal Reserve Act may be attributed to the dominance of his views on currency reform.

At the time the Wilson administration was seeking to have legislation passed creating the Federal Reserve System, the late Mr. Bryan was serving as Secretary of State. There is some reason to believe that one of the chief factors that led Woodrow Wilson to offer Mr. Bryan the foremost portfolio in his cabinet was to win his moral support and thus harmonize the views of the silver wing in Congress with those of the conservative forces. Should a sharp division have arisen within the administration ranks, it was feared delay and differences would have run the movement on the rocks.

Though Mr. Bryan's province in the cabinet was to direct our foreign policy, he kept in close touch with the situation affecting the reform of banking and currency. He made repeated inquiries at the Treasury as to the direction the proposed legislation was to take and discussed the matter with President Wilson. Finally, the measure that the President backed was drawn by Carter Glass, of Virginia, then chairman of the House Committee on Banking and Currency.

*Frank C. Ferguson, president Union Trust & Hudson County National Bank, Jersey City, N. J., President, New Jersey Bankers Association*

THE original draft of the Glass bill was unacceptable in that form to Bryan and his followers in Congress. It provided for the issuance of bank notes by the Federal Reserve banks, which were nothing more than ordinary bank currency. The real management of the System was to have been intrusted to a banking board, the members to be selected by the banks with such governmental representation as would free it from any charges of undue control or influence on the part of the banking interests. Mr. Bryan insisted that the notes should be issued by the government and not by the banks, because it was his contention that this was a true function of the government and that the value and circulating power of bank notes was largely due to the fact that the notes bore the governmental stamp. To conform to his view, President Wilson persuaded Mr. Glass and his associates to make the notes government obligations and to provide that notes should be issued only upon application to a governmentally appointed agent.

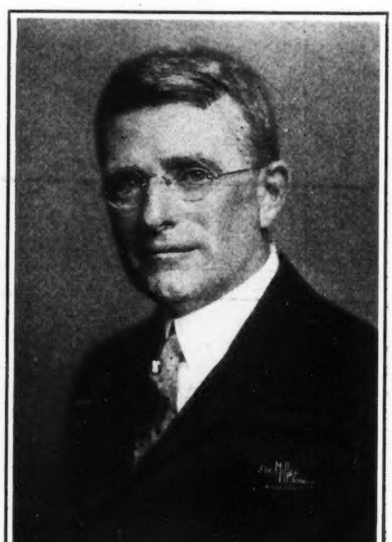
The proposal to eliminate all banking representation on the Federal Reserve Board was due to the insistence of Mr. Bryan and his supporters that the issue should be controlled by "public servants" and not by the banks. President Wilson made this concession by inserting the provision that the Federal Reserve Board should be composed of seven members—the Secretary of the Treasury, the Comptroller of the Currency and five to be appointed by the President and confirmed by the Senate. It is recorded that Mr. Glass protested against this elimination of all banking representation, pointing out the injustice to the banks subscribing the capital for the System and predicting that the Presidential appointment of members would bring the whole scheme into politics.

Further, Mr. Bryan held that state banks, as well as the national banks, should have the right to borrow "emergency Treasury notes" without having to put up bonds. He maintained that when a bank was compelled to put up bonds as a security for the issue of national bank notes, it had already parted with as much money as it could possibly borrow upon them and that such a system should be done away with when the new banking order was adopted.

AFTER the draft was revised to placate Mr. Bryan on these three points, he, although Secretary of State at the time, issued a public statement endorsing the bill in principle and declaring that the only two classes, who would oppose it, were "those who dispute the right of the people to issue through their government the money which the people need and those who, distrusting the representatives chosen by the people to guard the public welfare, should deny the government officials control over the issuance of emergency notes."

Mr. Bryan expressed the opinion that the system of regional banks would provide a sound but elastic currency.

Early in his public career, Mr. Bryan advocated the Federal guaranty of bank deposits, but he made little headway in getting Congress to act favorably on it. In various speeches, he said he was unwilling to invest in bank shares because he could never have an easy conscience if any depositor in a bank in which he had a financial interest should suffer a loss.



*J. J. Maloney, cashier, Farmers State Bank, Heron Lake, President, Minnesota Bankers Association*

# The American Institute of Banking Convention

**Twelve Hundred Attend Kansas City Sessions of American Institute of Banking. Plans Made to Extend Public Education Work by Organizing Corps of Speakers and Using Radio. Unfold Most Advanced Means for Extending Bank Services.**

THE most advanced and practical methods of promoting banking services were discussed by twelve hundred delegates among the 35,000 enrolled in the various courses of the American Institute of Banking, at the annual convention held in Kansas City on July 13-17. The sessions were featured by the work of nine departmental conferences where special phases of banking were taken up and considered by groups of specialists in the various fields. Dallas was selected as the city where the 1926 convention will be held and Bruce Baird, of the New Orleans Bank and Trust Company of New Orleans, was elevated to the presidency of the Institute for the forthcoming term.

While the convention was not lacking in sidelights, the chief interest centered around the departmental conferences where the practical problems of rendering the various services in banking were threshed out, the best means of scoring success considered and pointers given to increase the profits of banking institutions. It was notable as a convention of helpfulness.

## Public Education Plans

PLANS were made for the joint extension of the public educational work by the American Bankers Association and the American Institute of Banking through the nation-wide organization of a corps of public speakers, the development of a series of radio talks on banking and the endowment of a considerable number of scholarships to be awarded to students of banking in various parts of the country. John H. Puelicher, Chairman of the Public Education Commission of the American Bankers Association, made an inspirational address to the conference and expressed faith in the possibilities that would grow out of the development of public speakers in the chapters, districts and states. Dean Stephen I. Miller, the Educational Director of the Institute, announced that the campaign for the next year would include the continuance of the practice of sending bankers in the role of public speakers to explain banking to the growing generations in the graded schools and high schools. There will be a revision of the talks that are delivered in the high schools. To reach the great masses in the unseen radio audience, a series of talks will be prepared for use in the Fall. There was a general agreement that probably the most effective way for bankers to spread sound and useful information on financial subjects would be through the development of a corps of trained speakers, who might express themselves on various subjects as the need for this public service asserted itself.

To one of the small chapters in the American Institute of Banking fell the honor of winning the annual debate. The right to issue tax free securities was successfully upheld by the debating team from the Yakima County, Washington, chapter, composed of J. W. Brislawn, of the Yakima National Bank, A. O. Holm, of the Sunnyside National Bank, and A. M. Johnson, of the Yakima Valley Bank. The Washingtonians won over a team from Des Moines that sought to maintain the views of Secretary of the Treasury Mellon and other notable financiers that the issuance of tax-exempt securities should be outlawed.

The most exciting part of the elections was the contest for the vice-presidency. In this race, Paul B. Detwiler, of the Philadelphia National Bank, won over Henry J. Mergler, of Cincinnati. Those elected to the Executive Council were: Harry F. Manor, Toledo; Paul P. Brown, Raleigh, N. C.; J. M. Turner, San Francisco, and Callan E. England, Little Rock, Ark.

The principal address at general session was delivered by Dr. H. A. Morgan, president of the University of Tennessee, who discussed the economic background of our national prosperity and resources.

It was in the departmental conferences that the real work of the convention was done. Each had, as its leader, a banker widely informed on the particular subject. Upon the conclusion of the various papers, an open forum discussion followed to permit the clearing up of any points that were not covered. There were more than eighty individual addresses before the conferences, which covered operations in virtually every department of the bank.

*Bruce Baird, the new President of the American Institute of Banking*

## Problems of Investments

THE elements of strength and risk that characterize the various types of investments were reviewed in the conference on bonds and investments. The fundamentals of investments were defined by Dean Stephen I. Miller.

There are ample reasons for the widespread popularity of municipal bonds, Robert S. Mikesell, Vice-President of Stranahan, Harris & Oatis of Toledo, said. Before buying a general obligation bond, he advised the bankers to see that it has the recommendation of a reputable bond house having experience, financial responsibility and a substantial record; the unqualified approving opinion of a recognized bond attorney; and a fair ratio of bonded debt to actual valuation.

The small element of risk in hydro-electric and steam electric power company bonds was em-

*A flashlight view of the twenty-third annual Convention in session at the Orpheum Theater in Kansas City*

phasized by J. G. Klinginsmith, Manager of the Pittsburgh office of Harris, Forbes & Company. Only 13.3 per cent of the gross earnings of public utilities are devoted to labor costs, he said, being much less than the labor costs of railroads. Based on the comparison of risk of receivership over a period of the last thirty years per each $100 of securities outstanding, he cited these figures: Industrials $2.07, railroads $1.84, public utilities $0.37. The average net earnings on capitalization were: Industrials $7.80, railroads $4.50 and public utilities $8.45. During the first four months of 1925, investment securities of public service companies have come out at the rate of $5,000,000 a day, he reported, and a recent survey showed that 44 per cent of utility financing was in stock and 56 per cent in bonds in issues aggregating nearly $12,000,000,000.

In selecting railroad securities for investment, the banker should consider two primary factors—the general credit standing of the issuing company and the nature of the lien as security, D. Richard Young, of the National City Bank of New York, said. He emphasized that a railroad must be judged as a going concern because its earning power is far more essential than assets. Certain issues of railroad securities offer to the commercial bank not only the features of safety and marketability but a very attractive yield due to the fact that they are not on the list of "legals." While the restrictions imposed are entirely wholesome, he said, and most bonds that meet the "legal" requirements are good investments, there are cases where a bond may be protected by ample earning power and a sound security, and yet not qualify for the list. These securities often sell a number of points lower than otherwise and offer a real opportunity for banks.

The growth of railroad traffic is impressive, Mr. Young observed, when it is considered that, during the last quarter century, our population has grown one-half, railroad mileage one-third and the volume of freight handled three times. The railroads are the largest single industry in the country in the point of invested capital and are a great factor in our national prosperity. Mr. Young refuted the rather widespread popular notion that the valuation of the railroads is based on the outstanding bonds and stocks and pointed out that valuation is not based on post-war replacement costs. While deploring the excessive regulation of the carriers, he stated that the public attitude toward the railroads is now more favorable than for several years past.

The factors to consider in purchasing industrial bonds were reviewed by Maurice K. Baker, vice-president, Stern Brothers & Company, of Kansas City, while L. A. Morgan of the Detroit Trust Company discussed the trend of bond prices.

## Capitalizing Rents Unsafe

BEFORE investing in first mortgage real estate bonds, the prudent banker will ask who makes the appraisal, who is the borrower, who is the attorney, who guarantees the title, who is the trustee and has a sound plan of liquidation been laid down, Merrill C. Adams, vice-president of the Union Trust Company of Detroit, said. Only by satisfying himself on all of these points can the banker hope to reduce the volume of unsound mortgage bonds. He warned that there is grave danger in giving too much weight to the capitalization of rents because the present rental market may not continue.

Foreign government bonds as bank investments were considered by Clarence E. Cross, of the First Trust and Savings Bank of Chicago, while Sam N. Foster, of the United States National Company of Denver, discussed bonds as the bank's secondary reserve.

## Advertising Interprets

TO get satisfactory results from advertising, a bank must select a definite objective and a plan for its attainment, C. H. Handerson, publicity manager of The Union Trust Company of Cleveland, asserted. It should be remembered, he said, that advertising cannot create, but can only interpret—and it can interpret no more than banks create for it through advertising. It is to merchandising—by striving to make the banks' service more salable, more attractive, more convenient—that they must look if they are to increase the effectiveness of their advertising and reduce its cost, he concluded.

Women's departments in banks are here to stay, Ida Miller Henry of the Citizens Trust Company of Utica, New York, predicted. It is necessary to give women depositors the kind of treatment they like, Miss Miller said, because if the women do not like their treatment they may be expected to withdraw their accounts and broadcast the reasons for the action. Therefore, a bank must give women depositors sympathetic service and the best of service to hold their patronage and good will.

The arch-enemy of profits in the banking business is the fear of losing business, R. M. Philleo, vice-president of the Phoenix National Bank of Phoenix, Arizona, said, in discussing free services rendered by banks. While it is necessary to render reasonable gratuitous services, banks should consult each other and adhere to the rules laid down by the clearing house associations for preventing these services from becoming excessive and also make no attempt to endeavor to retain business at a price greater than the possible profit. As banks find it possible to charge for the services which they now donate, he suggested that a reasonable portion of the profits go into the payroll instead of all being turned into the undivided profits account.

Other phases of bank administration were discussed by Henry J. Mergler, Miss Julie Russel, Fred J. Nelson, James K. Steuart, W. H. Dressler and Joseph J. Schroeder.

## In Credit Work

IN interbank checking, the credit files should be gone through at least once a year, R. T. Marsh, Jr., of the Merchants

(*Continued on page* 119)

# Recent Decisions

## DIGESTED BY THOMAS B. PATON, JR.

**Assistant General Counsel**

CERTIFICATE OF DEPOSIT FRAUDULENTLY ISSUED BY CASHIER HELD A FORGERY—WEST VIRGINIA

A CERTIFICATE of deposit for $5,000 in the ordinary form was issued by a bank in West Virginia through its cashier, indorsed by the payee to one S. and by the latter to plaintiff bank. Certificates of deposit in such form are held to be negotiable instruments, but in the particular case, it is decided that plaintiff bank did not sustain the burden of proof that it purchased the paper in due course and for value without notice of its fraudulent origin; hence was not entitled to recover. On rehearing, it was contended that the issuing bank, with knowledge of the fraudulent inception of the instrument, had ratified its issue by adopting it and taking the benefits thereof. But it appearing that although the cashier had authority to issue certificates of deposit in the ordinary form, the certificate in question was one of a series of $105,000 fraudulently issued by the cashier, and in view of this fact, the court holds that as the bank had no power nor the cashier no authority to make such an issue the certificate must be held a forgery. While the authorities are not in accord whether a forged instrument may be the subject of ratification, the weight of authority which is followed by the court is that a forgery is not susceptible of ratification; hence there can be no recovery thereon in any event. Merchants Bank & Trust Company vs. Peoples Bank of Keyser, Supreme Court of Appeals of West Virginia, June 2, 1925. (Not yet reported.)

NOTE.—The attention of bankers is called to the far-reaching effect of this decision which takes negotiable certificates of deposit out of the category of negotiable instruments and makes them forged paper under circumstances such as disclosed in above case. In this view, the cashier of any country bank, having authority to issue certificates of deposit in the regular way, could fraudulently issue a large number of certificates which would find marketability to innocent purchasers and the bank could deny liability on the ground that they were forgeries and there could be no holders in due course of such instruments.

CERTIFICATE OF DEPOSIT PROCURED BY FRAUD—PURCHASER HELD NOT A GOOD FAITH HOLDER—WEST VA.

A NEGOTIABLE certificate of deposit was procured by fraud and the title of the payee was defective within the meaning of the Negotiable Instruments Act. In an action by the transferee of the certificate it was held that the burden was on the holder to show that he purchased it in good faith for value, before maturity without notice of any infirmity and that the holder's evidence was insufficient to sustain this burden and to prove it was a purchaser in good faith. Hence, there was judgment for the defendant bank. Maryland Finance Co. v. Peoples Bank of Keyser, 128 S. W. [W. Va.] 294, May 26, 1925.

DEPOSIT OF CHECKS AFTER BANKING HOURS VALID—MONEY DELIVERED FOR SPECIFIC PURPOSE A TRUST FUND

TWO checks were given to Ruskay & Company, Stock Brokers, February 20, 1922, for the purchase of fifteen shares American Telephone & Telegraph Company stock. A receiver in bankruptcy was appointed for Ruskay & Company February 23, 1922. The stock was never purchased or delivered but Ruskay & Company deposited the checks in their bank after banking hours February 21, 1922, and these checks were not actually credited on the bank's books to Ruskay & Company until February 23, 1922, the next banking day. The petitioner, the drawer of the checks, claimed he had traced these checks into the bankrupt's bank account and was entitled to recover their amount from the receiver of the bankrupts. The court upholds the claim, stating that the amount of the checks was paid for a specific purpose, was received by the bankrupts for the benefit of the petitioner and was actually in the possession of the bank at the time of the appointment of the receiver and actually came into his hands. The following points, leading up to this conclusion, are decided: (1) The money paid to the bankrupts solely for the purchase of stock was impressed with a trust in favor of the payor and can be followed and recovered if clearly traced and identified in some certain or specific fund or property; (2) the decision of the lower court that the fund was dissipated and never reached the receiver is erroneous because based on the theory that the deposit was not received by the bank until February 23, 1922, on which day the withdrawals of the bankrupts exhausted the purported balance of the previous day, the doctrine being applied that a dissipated trust fund cannot be treated as reappearing in sums subsequently deposited to the credit of the same. It is held that the money was received by the bank and it became debtor therefor on February 21, 1922, although after banking hours and not entered on its books to the credit of the depositor until February 23rd and that this money added to the bankrupt's account as of the date when it was actually received so increased the balance that the withdrawals at no time exceeded the deposits. The doctrine of a dissipated trust fund did not, therefore, apply; (3) the rule that a bank closes at three o'clock is merely a regulation for the convenience of the bank and it does not prohibit a bank from receiving a deposit of money or its equivalent (checks and drafts) after three o'clock; and if it does so receive the deposit, the amount so received creates the relation of debtor and creditor as effectively as though the deposit was actually received before three o'clock whether the entry actually appears on the books of the bank on the day it was received or whether the actual entry is postponed until the next day. In re Ruskay, 5 Fed. Rep. (2nd) 143, Feb. 2, 1925.

NOTE GIVEN IN PURCHASE OF SECURITIES SOLD IN VIOLATION OF BLUE SKY LAW NOT ENFORCEABLE BY PAYEE—ARIZ.

DEFENDANT purchased certain shares of stock in a promotion company, giving four notes, each for $1,250, in payment. These notes matured at intervals, and three were paid as they came due. But defendant refused to pay the fourth, and that is here sued on.

Defendant denied liability on the note on the ground that the sale of stock to him was illegal, because the company for which the action is brought, had never qualified under the blue sky law for the sale of its securities in the state, nor had it complied with the laws governing corporations. Plaintiff contended that the company was a common law business trust operating under a declaration of trust, and being in the nature of the so-called "Massachusetts trust." That it was not a corporation, and, therefore, not bound to comply with the corporation laws of the state.

Defendant was held not liable on this note, for the sale of the securities in payment of which it was given was a prohibited transaction, and a misdemeanor by the seller, under the blue sky law. For the purchaser of stock is not estopped to deny liability on a note given in payment, where the sale to him is illegal. Nor could this seller ask the court to carry out its illegal object under an illegal contract.

For the purpose of this suit plaintiff, although claiming not to be a corporation on account of its nature as a business trust, was held to be a corporation. It exercised and enjoyed powers and privileges not possessed by individuals and partnerships, and was in effect operating as a corporation. Reilly v. Clyne, 234 Pac. 35 (Ariz. 3-25).

THE crime of obtaining money by means of a bogus check is completed at the time the check is uttered and passed, and the fact that the accused subsequently gives the prosecuting witness security for the debt owing him, by reason of this transaction, does not affect the question of his guilt. Beach v. State, 230 Pac. 758 (Okla. 12-24).

COTTON which was shipped under a uniform order bill of lading and had been unloaded at point of destination and stored on railroad's premises for 30-day period, was not subject to attachment, while so stored, being in the "possession" of the carrier under U. S. Comp Stat. §86041 Cooper v. Crowder, 126 S. E. 436 (S. C. 2-25).

# The Condition of Business

**Efficient Transportation, Rapid Inventory Turnover, and Strong Cash Position Are Factors Making Possible a Large Volume of Business With Only a Moderate Use of Credit. Stock Issues Figure Prominently In Recent Corporate Financing.**

THERE was very little change in the general business situation in July, although sentiment became somewhat more optimistic during the month as the usual preliminary evidences of expanding fall trade began to appear. The general run of industrial activity, though showing a further slight recession, remained well above the level of a year ago. Evidence of a continued rapid pace in trade and distribution of goods appeared in the statistics of freight car loadings, wholesale and retail trade, and the volume of checks drawn on individual bank accounts. Crop reports continued to indicate fairly abundant harvests at remunerative prices. Prices of basic industrial commodities continued to show an upward trend and on July 25 the weekly price index of the New York Federal Reserve Bank was close to the highest level in two years.

A firmer tendency became apparent toward the end of July in rates for commercial paper, government securities, and time loans on stock exchange collateral. Accompanying this firmer tendency, bond prices reacted slightly. In the corporation list, averages of bond prices declined somewhat below the high levels of May and June, and United States government issues, after advancing early in July to new high prices for the year and in some cases since the date of issuance, later in the month showed net losses ranging from ¼ of a point to over a point.

## *Volume of Trade Large*

A CONTINUING feature of the business situation has been that while the volume of trade in general has averaged high, it has been financed with only a moderate amount of bank credit. Commercial loans of member banks in leading cities which report weekly to the Federal Reserve Banks have remained near the low level for the year, although they have been running considerably above the totals for the corresponding period in 1924. The volume of open market borrowing has been lower recently than at this season in any year since 1921. Better merchandising methods, quick transportation, rapid inventory turnover, and the building up of strong cash resources by corporations have been important factors contributing to this situation.

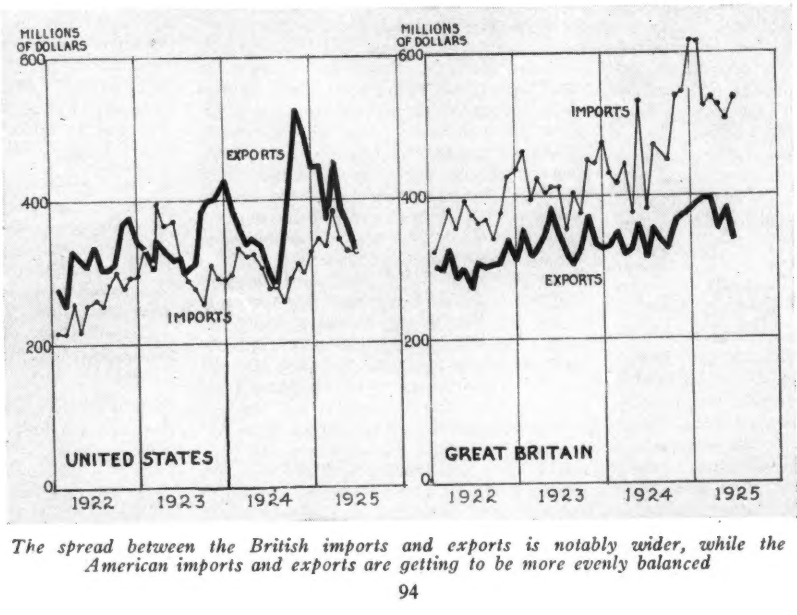
Statements of earnings by the larger industrial corporations, covering operations for the first six months of the year, have shown in some instances the largest earnings on record. This applies not only to the motor industry but also to the steel companies, whose operations were curtailed in the second quarter of the year. The report of the United States Steel Corporation for the June quarter reflects in many ways the character of the industrial situation. Total net earnings were the largest of any quarter in the twelve months past. Earnings for May, the largest month of the quarter, were a trifle under those of March (when the very large increase of orders during the post-election "boom" was being translated into profits), but otherwise they exceeded the results of any month since April, 1924. All this is evidence of a period of good business, in which producing companies have prospered notwithstanding expressions of disappointment and the absence of a "trade boom." Another feature of the Steel Corporation's report was the uniformity of earnings. Notwithstanding wide fluctuations in unfilled orders, very little variation appeared from month to month in profits. These facts appear to indicate that production and consumption have been well balanced, leaving no unwieldy stock of goods in the hands of manufacturers or merchants.

## *Heavy Freight Movements*

CONSIDERABLE light on the course of business this year in comparison with previous years is furnished by an analysis of the movement of various types of freight throughout the country. During the first twenty-eight weeks of 1925, the railroads moved the greatest number of carloads of freight ever handled during a similar period. The total of 26,145,000 cars was about 5 per cent larger than last year and 1 per cent above 1923. In the accompanying table, the cumulative figures of carloadings for the first 28 weeks of this year and the two preceding years have been subdivided to distinguish merchandise and miscellaneous freight from all other types, and also to show the principal sections of the country used by the American Railway Association in reporting traffic movements. The figures for the first twenty-eight weeks of 1923 have been taken as a base of 100 per cent.

| | First 28 weeks of 1923=100 | | | |
|---|---|---|---|---|
| | Mdse. & Misc. | | All Other | |
| District | 1924 | 1925 | 1924 | 1925 |
| Eastern | 101 | 107 | 83 | 80 |
| Allegheny | 97 | 102 | 80 | 81 |
| Pocahontas | 104 | 109 | 107 | 131 |
| Southern | 102 | 113 | 88 | 91 |
| Northwestern | 97 | 106 | 93 | 94 |
| Central Western | 100 | 104 | 98 | 96 |
| Southwestern | 108 | 125 | 105 | 108 |
| Total, all districts | 100 | 107 | 90 | 92 |

The increase in merchandise and miscellaneous freight loadings this year as compared with 1924 and 1923 have been shared in by all sections of the country, but the southern, southwestern, and northwestern regions have shown very large relative increases. Loadings of miscellaneous and merchandise freight are considered especially indicative of the general run of business conditions, since the former class includes manufactured products and many raw materials used in manufacture, while the latter class (*Cont. on page* 105)




*The spread between the British imports and exports is notably wider, while the American imports and exports are getting to be more evenly balanced*

## Live Stock Industry

(*Continued from page* 81)

stock northern pastures with southern bred cattle. The hazard involved of transportation, acclimatization and the long period necessary thereafter to prepare for market beef after this fashion, is in my opinion too great to warrant its continuation, and my guess is that the successful growers of live stock in Montana in the future will be those who with care select their foundation herds, breed their own offspring, and at one or two years old prepare this young stuff, in part in the feed lots of Montana and in part for the feed lots of the central Mississippi Valley states. Together with this scientific production we must have intelligent education of the value of beef as a food product and untiring effort to increase consumption in this country, with a policy of broadly extending our export demand. In this connection there has been no more important event for the farmer and stock man since the Armistice than the recent return of Great Britain to the gold standard. It seems a long distance from the Montana farm to the gold vaults of the Bank of England, but as a matter of fact, the price which the Montana farmer gets for his wheat and cattle depends not a little on the gold in the vaults of the Bank of England.

### *The Real Buyer Is Abroad*

THE farmer sells his wheat to the elevator man and yet the real buyer, in many cases, is not the elevator man at all but an Englishman, a Frenchman, a German, or an Italian, whom the farmer never sees, for about one-third of the wheat crop is usually sold abroad, either in grain or in flour, and it is this exportable part of the crop, varying from year to year, which is a large factor in fixing the price of the entire crop.

Between the farmer and the unseen foreign buyer of wheat there are many steps, but in recent years the most important step has been that at which the foreign buyer has to pay the American exporter. For the international mechanism of payment has been badly out of order because Europe was off the gold standard.

It is just as though an English buyer drove up to a farm house bargained for wheat and drew up the contract. But when payment was discussed, he said: "I'm sorry I haven't any good United States money to pay you with; I'll have to pay you in my English paper money, which isn't worth its face value in gold. I don't know what it may be worth next week, but that is your risk."

I wonder how many would be willing to sign contracts on this basis. Yet that is the way most of the world's trade has had to be carried on since the Armistice. In practically all countries except the United States the local currencies have had no fixed value in gold, but have changed in value from day to day. Whenever one country sold anything to another country, somebody had to take the risk of loss because the value of the money might change before payment was made.

Such uncertainty of payment is a deadly foe to trade, and people were afraid to do any larger international business than they had to. World trade in 1920, 1921 and 1922 dropped off to a point nearly one-third less than before the war. Exports of foodstuffs from the United States fell from 2½ billion dollars in 1919 to eight hundred millions in 1923, and the difficulties of European buyers in making satisfactory payment for American farm products was one of the large factors in the drop in the prices of farm products.

But now the recent action of Great Britain in declaring that it will again redeem its paper money in gold means that British buyers of American products can pay for them with money which has a fixed value, money which is accepted the world over at its face value in gold. With the return of Great Britain to the gold standard, a majority of the countries of Europe now have paper currencies equal to gold.

### *A Constructive Step in Aid of the Farmers*

AMERICAN bankers have assisted in the British return to the gold standard by giving a $100,000,000 credit to the British Government. But more important than this was the action of the twelve Federal Reserve Banks in granting the request of the Bank of England for material cooperation. They have placed $200,000,000 gold at the disposal of the Bank of England for two years, to be used by it, if necessary, in maintaining the gold standard. I have no doubt that the readiness of the Reserve Banks thus to cooperate with the Bank of

England was an important influence in the willingness of the British people to take this all important step for the preservation of gold standard.

This action of the Reserve Banks was a most constructive step in aid of American farmers and producers who will benefit greatly by the removal of this element of uncertainty from their export transactions.

If all the sins of omission and commission charged against the Federal Reserve System by banker, business man, live stock man or political blatherskite in the last five years were true, and practically none of them are, the service rendered the commerce and industry of the country and of the world by the System in connection with the restoration of the gold standard in so large a part of the world would far outweigh any mistake that those in charge of the System may have made; and no banker, business man or farmer should permit any self-serving declaration by favor-seeking demagogue to swerve him from a determination to see that the System is maintained and preserved for the future welfare of the business of the country.

## *Present Prosperity and the Federal Reserve*

NOT alone in connection with this matter, however, has the Federal Reserve System been of service to our people. Notwithstanding we hear frequently these days expressions of dissatisfaction with business conditions, we know very well that fundamentally conditions are very sound and that we are actually doing a very large volume of business, no little part of which is due to the equalizing and stabilizing affect exercised by the Federal Reserve System on the credits of the country. Throughout all the stress of the last five years there have been no times of either stringency or plethora of bank credit. Rates have run along on a rather level keel and in my judgment have had much to do with the stable volume of business which we have enjoyed, and which is quite contrary to the old experience of the aftermath of panics, when the first effect has been very cheap credit and secondary inflation, with its accompaniment of tight money again and a further depression.

Whether the new method of conducting the business of the country is to be permanent or not, one cannot very well guess; but it is very certain that at the present time the so-called hand-to-mouth buying is very soundly entrenched, that it is sane and makes for steadier and more wholesome conditions seems to me obvious. With greatly expanded facilities for manufacture, with the best transportation system in the world, and with assured credit facilities for handling the needs of business, it would seem unreasonable that we should in the near future resort to the old method of speculation such as is inseparably tied up with large future commitments in anticipation of buying demands. If we will preserve our transportation system in its present state of efficiency, together with a credit structure as only the Federal Reserve System can guarantee, I feel we need have no apprehension but on the contrary sound optimism for the future.

# Bank Deposits Break All Records

THE number of American chartered banks was reduced by more than three hundred during the past year but there was a gain of $3,506,000,000 in deposits, $4,807,000,000 in resources and $61,396,000 in invested capital.

These striking gains are shown by figures compiled by R. N. Sims, vice-president of the Hibernia Bank and Trust Company, of New Orleans, and secretary of the National Association of Supervisors of State Banks. The totals were obtained by taking the figures shown in the condition of National banks on last April 6 and those for state banks on the nearest bank call date.

There were 21,122 state banks and 8016 national banks at that time. During the year he estimated that the deposits in state banks increased from $28,402,756,641 to $31,114,361,942 while the deposits of national banks grew from $17,598,696,000 to $19,382,947,000. The loans and the discounts of the state banks declined about a half-billion dollars, while the national banks increased their loans and discounts by approximately the same amount. In the holdings of bonds, stocks and securities, the national banks enjoyed an increase of nearly $750,000,000 while the state banks reduced their holdings by slightly more than $400,000,000.

Since 1922 the American banks have steadily increased their invested capital and have reported larger deposits and loans. The decrease in the number of banks reporting is due to the mergers of banks, and the closing of a considerable number. This has exceeded the number of new banks which have been chartered by the Comptroller of the Currency and the various states.

Below is the data on state banks and figures showing the total bank resources of the United States:

| | STATE | Date of Report | No. of Institutions | Capital | Surplus | Undivided Profits | Capital, Surplus & Undivided Profits | Deposits, Including Certified & Cashiers' Checks | Loans & Discounts | Bonds, Stocks, Securities, etc. | Total Resources | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | ALABAMA | 4- 6-25 | 252 | $13,781,300.00 | $6,932,176.25 | $3,689,089.77 | $24,402,566.02 | $123,221,337.42 | $103,258,905.74 | $12,079,013.34 | $151,920,874.67 | 1 |
| 2 | ARIZONA | 4- 6-25 | 39 | 3,979,400.00 | 2,095,753.80 | 870,356.87 | 6,945,510.67 | 46,316,436.79 | 30,297,644.84 | 8,647,659.40 | 54,656,840.45 | 2 |
| 3 | ARKANSAS | 4- 6-25 | 392 | 15,915,800.00 | 6,167,609.45 | 2,983,176.59 | 25,066,586.04 | 144,864,500.88 | 113,019,226.55 | 10,296,564.80 | 174,773,843.46 | 3 |
| 4 | CALIFORNIA | 4- 6-25 | 401 | 126,847,170.00 | 60,053,175.16 | 36,089,203.54 | 222,989,548.70 | 2,147,979,382.28 | ,455,644,070.42 | 526,376,216.28 | 2,415,153,145.11 | 4 |
| 5 | COLORADO | 4- 6-25 | 198 | 6,814,500.00 | 3,213,329.57 | 1,194,649.71 | 11,222,479.28 | 79,124,678.65 | 49,125,065.46 | 15,485,763.75 | 91,397,007.91 | 5 |
| 6 | CONNECTICUT { TRUST COS. / SAVINGS BANKS | 4- 6-25 / 3-31-25 | 167 | 16,490,500.00 | 39,064,788.67 | 8,119,599.76 | 63,674,888.43 | 744,490,470.03 | 394,097,364.51 | 284,144,664.61 | 830,349,939.18 | 6 |
| 7 | DELAWARE | 4- 6-25 | 43 | 7,576,380.00 | 7,561,134.64 | 3,452,388.26 | 18,589,902.90 | 84,801,436.85 | 52,284,946.02 | 40,072,603.08 | 105,674,752.42 | 7 |
| 8 | FLORIDA | 4-18-25 | 260 | 14,648,000.00 | 5,555,011.63 | 3,976,884.16 | 24,179,895.79 | 294,383,751.42 | 168,419,252.04 | 36,353,915.24 | 321,631,787.36 | 8 |
| 9 | GEORGIA | 4- 6-25 | 548 | 31,348,030.00 | 15,430,550.67 | 6,714,094.16 | 53,492,674.83 | 219,281,480.28 | 190,070,612.94 | 16,700,349.34 | 281,041,660.84 | 9 |
| 10 | IDAHO | 4- 6-25 | 106 | 3,252,500.00 | 902,353.23 | 216,927.12 | 4,371,780.35 | 31,427,225.14 | 19,577,785.57 | 7,382,276.34 | 37,335,951.31 | 10 |
| 11 | ILLINOIS | 4- 6-25 | 1,398 | 158,728,500.00 | 110,386,181.92 | 41,128,795.65 | 310,243,477.57 | 2,183,351,419.43 | 1,462,646,206.80 | 590,245,463.58 | 2,591,554,730.91 | 11 |
| 12 | INDIANA | 12-31-24 | 861 | 47,539,733.35 | 22,297,500.63 | 11,133,489.19 | 80,970,723.17 | 483,507,523.64 | 376,178,145.07 | 85,816,060.94 | 639,951,817.68 | 12 |
| 13 | IOWA | 5- 1-25 | 1,317 | 50,952,800.00 | 21,955,144.87 | 10,809,168.84 | 83,717,113.71 | 603,223,195.56 | 550,010,534.21 | 27,391,412.98 | 710,059,573.24 | 13 |
| 14 | KANSAS | 3-23-25 | 1,029 | 26,931,000.00 | 14,128,672.14 | 3,856,050.19 | 44,915,722.33 | 265,265,051.56 | 198,539,625.49 | 27,502,649.73 | 315,578,967.66 | 14 |
| 15 | KENTUCKY | 6-30-24 | 474 | 22,402,035.00 | *17,013,823.97 | ........ | 39,415,858.97 | 203,477,823.03 | 178,528,304.88 | 36,990,882.23 | 260,394,024.52 | 15 |
| 16 | LOUISIANA | [illegible] 3-25 | 212 | 23,405,810.00 | 13,462,448.60 | 4,650,732.91 | 41,518,991.51 | 319,767,696.64 | 253,658,153.92 | 36,928,188.39 | 388,698,712.37 | 16 |
| 17 | MAINE | 3-31-25 | 92 | 5,440,800.00 | 10,729,787.37 | 8,800,973.61 | 24,971,560.98 | 251,402,471.04 | 109,055,784.54 | 152,098,773.04 | 281,757,766.64 | 17 |
| 18 | MARYLAND { TRUST COS. / OTHER BANKS | 3-31-25 / 12-31-24 | 163 | 23,310,700.00 | 34,464,871.21 | 12,581,074.87 | 70,356,646.08 | 458,336,889.71 | 179,975,279.60 | 207,512,642.34 | 540,211,326.03 | 18 |
| 19 | MASSACHUSETTS { TRUST COS. / OTHER BANKS | 4- 5-25 / 10-31-24 | 508 | 270,658,351.67 | 171,360,856.05 | 30,848,220.69 | 472,867,428.41 | 2,846,538,993.26 | 1,891,604,340.57 | 1,069,402,648.62 | 3,178,185,408.29 | 19 |
| 20 | MICHIGAN | 4- 6-25 | 603 | 70,291,654.00 | 52,968,644.70 | 16,414,098.03 | 139,674,396.73 | 1,138,522,027.10 | 435,381,577.00 | 665,465,438.94 | 1,349,584,130.97 | 20 |
| 21 | MINNESOTA | 3-20-25 | 1,066 | 31,453,600.00 | 14,284,113.08 | 5,613,616.08 | 51,351,329.16 | 449,487,903.85 | 283,686,385.66 | 131,843,148.27 | 516,135,036.32 | 21 |
| 22 | MISSISSIPPI | 12-31-24 | 321 | 11,834,430.00 | 6,146,437.87 | 1,611,929.98 | 19,592,797.85 | 147,893,205.27 | 99,535,765.15 | 19,056,774.52 | 173,897,070.83 | 22 |
| 23 | MISSOURI | 12-31-24 | 1,163 | 81,645,648.74 | 47,265,201.25 | 13,371,216.30 | 142,282,066.29 | 810,929,601.69 | 498,140,350.16 | 245,224,199.01 | 990,213,034.37 | 23 |
| 24 | MONTANA | 4- 6-25 | 152 | 7,065,000.00 | 1,860,760.78 | 710,288.52 | 9,636,049.30 | 66,328,407.00 | 36,678,007.97 | 18,776,359.96 | 77,260,596.35 | 24 |
| 25 | NEBRASKA | 3-31-25 | 922 | 23,996,200.00 | 7,057,244.63 | 1,599,530.05 | 32,652,974.68 | 286,161,242.77 | 223,015,396.35 | 17,750,959.23 | 323,531,934.75 | 25 |
| 26 | NEVADA | 4- 6-25 | 23 | 1,686,400.00 | 557,759.25 | 384,552.76 | 2,628,712.01 | 20,093,837.05 | 15,477,843.57 | 2,616,821.75 | 23,024,359.24 | 26 |
| 27 | NEW HAMPSHIRE | 6-30-24 | 68 | 1,055,000.00 | *11,240,290.12 | ........ | 12,295,290.12 | 173,473,958.64 | 85,841,766.83 | 79,859,497.08 | 193,031,312.37 | 27 |
| 28 | NEW JERSEY | 4- 6-25 | 228 | 53,782,250.00 | 63,702,688.69 | 19,389,874.49 | 136,874,813.18 | 1,080,450,536.10 | 204,887,579.24 | 682,258,936.97 | 1,250,776,469.92 | 28 |
| 29 | NEW MEXICO | 4- 6-25 | 38 | 1,535,000.00 | 360,750.00 | 71,252.00 | 1,967,002.00 | 9,009,418.78 | 6,976,833.77 | 1,379,234.31 | 11,294,800.40 | 29 |
| 30 | NEW YORK { SAVINGS BANKS / OTHER BANKS | 1- 1-25 / 3-25-25 | 678 | 293,758,832.00 | *365,007,893.00 | ........ | 658,766,725.00 | 8,589,373,546.55 | 1,847,374,635.00 | 1,375,346,277.91 | 10,025,872,544.65 | 30 |
| 31 | NORTH CAROLINA | 4- 6-25 | 516 | 23,193,097.44 | 12,028,895.31 | 4,076,124.91 | 39,298,117.66 | 236,479,402.56 | 213,682,848.20 | 20,555,823.35 | 295,815,795.29 | 31 |
| 32 | NORTH DAKOTA | 3-14-25 | 508 | 8,915,500.00 | 2,996,300.13 | ........ | 11,911,800.13 | 85,707,347.07 | 63,965,786.17 | 9,963,006.91 | 101,415,459.72 | 32 |
| 33 | OHIO | 3-30-25 | 743 | 112,538,080.00 | 80,064,090.00 | 21,912,638.00 | 214,514,808.00 | 1,653,108,169.00 | 1,217,839,475.00 | 358,944,794.00 | 1,921,438,074.00 | 33 |
| 34 | OKLAHOMA | 4- 6-25 | 379 | 7,329,700.00 | 1,387,954.64 | 745,280.41 | 9,462,935.05 | 75,398,145.22 | 43,353,426.66 | 13,370,569.76 | 85,995,570.45 | 34 |
| 35 | OREGON | 4- 6-25 | 180 | 10,372,900.00 | 3,865,905.01 | 1,542,900.76 | 15,781,705.77 | 108,076,659.05 | 69,076,597.42 | 27,265,244.20 | 129,838,113.30 | 35 |
| 36 | PENNSYLVANIA | 4- 9-25 | 789 | 172,217,518.20 | 298,472,465.84 | 72,344,438.48 | 543,034,422.52 | 2,283,320,345.51 | 958,446,741.11 | 1,081,629,446.23 | 2,969,801,663.27 | 36 |
| 37 | RHODE ISLAND { SAVINGS BANKS / OTHER BANKS | 12-31-24 / 2-26-25 | 28 | 9,400,000.00 | 15,214,628.26 | 4,070,251.49 | 28,684,879.75 | 374,831,871.15 | 185,404,572.94 | 193,103,026.15 | 420,113,681.76 | 37 |
| 38 | SOUTH CAROLINA | 4- 6-25 | 309 | 14,473,104.69 | 6,862,726.87 | 2,472,028.63 | 23,807,860.19 | 117,056,820.30 | 106,111,564.57 | 13,666,270.48 | 148,650,596.69 | 38 |
| 39 | SOUTH DAKOTA | 4- 6-25 | 426 | 9,461,000.00 | 3,378,149.74 | 2,309,816.62 | 15,148,966.36 | 121,939,784.59 | 91,697,450.16 | 7,277,694.85 | 141,318,414.39 | 39 |
| 40 | TENNESSEE | 4- 6-25 | 445 | 24,604,333.77 | *12,782,718.41 | ........ | 37,387,052.18 | 215,543,743.53 | 177,172,980.11 | 18,012,763.26 | 271,877,518.50 | 40 |
| 41 | TEXAS | 4- 6-25 | 910 | 40,797,300.00 | *18,359,455.13 | ........ | 59,156,755.13 | 295,020,291.13 | 209,400,390.70 | 26,131,362.19 | 365,584,706.83 | 41 |
| 42 | UTAH | 3-27-25 | 93 | 7,845,950.00 | 4,223,587.32 | 951,013.16 | 13,020,550.48 | 80,989,696.98 | 69,431,216.26 | 18,594,372.99 | 107,298,766.63 | 42 |
| 43 | VERMONT | 4- 6-25 | 59 | 2,666,000.00 | 8,570,794.50 | 2,887,349.65 | 14,124,144.15 | 150,102,016.95 | 113,282,497.10 | 44,482,035.10 | 168,062,951.26 | 43 |
| 44 | VIRGINIA | 4- 6-25 | 336 | 27,274,410.00 | 15,390,206.71 | 5,051,159.49 | 47,715,776.20 | 164,049,798.23 | 173,340,569.25 | 17,902,519.16 | 240,823,948.70 | 44 |
| 45 | WASHINGTON | 4- 6-25 | 256 | 12,606,500.00 | 4,913,501.71 | 1,671,616.49 | 19,191,618.20 | 154,504,428.23 | 95,204,310.53 | 45,946,959.29 | 177,077,532.00 | 45 |
| 46 | WEST VIRGINIA | 4- 6-25 | 222 | 21,268,973.90 | 13,753,197.52 | 5,243,555.19 | 40,265,728.61 | 191,218,864.42 | 173,159,890.44 | 24,036,119.47 | 241,225,101.69 | 46 |
| 47 | WISCONSIN | 4- 6-25 | 834 | 35,304,000.00 | 15,920,642.60 | 10,481,861.58 | 61,706,504.18 | 493,737,256.18 | 347,362,501.22 | 118,123,724.88 | 564,141,266.38 | 47 |
| 48 | WYOMING | 4- 6-25 | 67 | 2,130,000.00 | 878,434.82 | 536,918.38 | 3,545,353.20 | 19,789,853.62 | 15,441,811.15 | 1,956,282.64 | 23,953,882.65 | 48 |
| | TOTALS (Average Date) | 4- 6-25 | 21,122 | $1,990,525,694.76 | $1,652,290,607.72 | $386,578,187.34 | $4,029,394,489.82 | $31,114,361,942.13 | $15,836,362,018.96 | $8,471,967,470.89 | $36,679,382,463.73 | |
| | Comptroller's Report (National Banks) | 4- 6-25 | 8,016 | 1,361,444,000.00 | 1,106,544,000.00 | 490,457,000.00 | 2,958,445,000.00 | 19,382,947,000.00 | 12,480,246,000.00 | 5,753,440,000.00 | 23,832,463,000.00 | |
| | EXCESS OF STATE BANKING INSTITUTIONS | | 13,106 | $ 629,081,694.76 | $ 545,746,607.72 | ........ | $1,070,949,489.82 | $11,731,414,942.13 | $3,356,116,018.96 | $2,718,527,470.89 | $12,846,919,463.73 | |
| 1 | Totals State Banks | 6-30-19 | 21,028 | $1,397,888,588.00 | $1,332,891,448.86 | $258,882,640.87 | $2,899,662,677.73 | $21,632,822,011.81 | $12,257,134,526.40 | $8,497,523,011.46 | $25,965,675,836.30 | 1 |
| 2 | Totals State Banks | 6-30-20 | 21,923 | 1,595,243,703.89 | 1,450,494,206.82 | 295,274,641.47 | 3,341,012,552.18 | 23,950,838,611.35 | 15,334,616,394.62 | 8,235,427,676.40 | 29,191,455,648.43 | 2 |
| 3 | Totals State Banks | 3-10-21 | 22,705 | 1,734,909,385.20 | 1,533,327,012.84 | 318,844,745.52 | 3,587,081,143.56 | 23,780,750,818.50 | 15,449,134,595.23 | 8,877,828,333.49 | 29,412,657,029.82 | 3 |
| 4 | Totals State Banks | 3-10-22 | 22,302 | 1,794,110,615.82 | 1,587,458,465.10 | 319,108,843.39 | 3,700,677,924.31 | 23,510,877,185.07 | 14,108,585,847.71 | 9,414,104,361.97 | 28,808,553,357.84 | 4 |
| 5 | Totals State Banks | 4- 3-23 | 22,084 | 1,855,237,769.73 | 1,450,746,035.80 | 335,458,195.93 | 3,641,444,001.50 | 27,013,525,116.92 | 15,547,076,777.07 | 7,438,708,895.68 | 32,081,329,235.59 | 5 |
| 6 | Totals State Banks | 3-31-24 | 21,350 | 1,915,334,597.03 | 1,547,908,798.76 | 346,360,002.62 | 3,809,603,398.41 | 28,402,756,641.94 | 16,264,679,542.27 | 8,055,053,931.93 | 33,641,174,127.53 | 6 |
| 7 | Totals State Banks | 4- 6-25 | 21,122 | 1,990,525,694.76 | 1,652,290,607.72 | 386,578,187.34 | 4,029,394,489.82 | 31,114,361,942.13 | 15,836,362,018.96 | 8,471,967,470.89 | 36,679,382,463.73 | 7 |
| 1 | Totals National Banks | 6-30-19 | 7,785 | $1,118,603,000.00 | $ 872,226,000.00 | $372,649,000.00 | $2,363,478,000.00 | $15,924,865,000.00 | $10,588,801,000.00 | $5,047,521,000.00 | $20,799,550,000.00 | 1 |
| 2 | Totals National Banks | 6-30-20 | 8,030 | 1,224,166,000.00 | 986,384,000.00 | 411,525,000.00 | 2,622,075,000.00 | 17,155,421,000.00 | 12,396,900,000.00 | 4,498,771,000.00 | 22,196,737,000.00 | 2 |
| 3 | Totals National Banks | 2-21-21 | 8,143 | 1,273,205,000.00 | 1,029,406,000.00 | 431,204,000.00 | 2,733,815,000.00 | 15,478,354,000.00 | 11,680,837,000.00 | 4,028,059,000.00 | 20,307,651,000.00 | 3 |
| 4 | Totals National Banks | 3-10-22 | 8,197 | 1,289,528,000.00 | 1,036,184,000.00 | 508,560,000.00 | 2,834,272,000.00 | 15,390,438,000.00 | 11,293,874,000.00 | 4,118,160,000.00 | 19,815,402,000.00 | 4 |
| 5 | Totals National Banks | 4- 3-23 | 8,229 | 1,319,144,000.00 | 1,067,652,000.00 | 486,172,000.00 | 2,872,968,000.00 | 17,036,281,000.00 | 11,679,621,000.00 | 5,041,122,000.00 | 21,612,713,000.00 | 5 |
| 6 | Totals National Banks | 3-31-24 | 8,115 | 1,335,572,000.00 | 1,073,363,000.00 | 507,905,000.00 | 2,916,840,000.00 | 17,598,696,000.00 | 11,963,102,000.00 | 5,005,950,000.00 | 22,062,888,000.00 | 6 |
| 7 | Totals National Banks | 4- 6-25 | 8,016 | 1,361,444,000.00 | 1,106,544,000.00 | 490,457,000.00 | 2,958,445,000.00 | 19,382,947,000.00 | 12,480,246,000.00 | 5,753,440,000.00 | 23,832,463,000.00 | 7 |

*Includes Undivided Profits.

**All Banking Institutions of the United States on April 6, 1925, show:**

| | |
|---|---|
| Total Banks | 29,138 |
| Total Capital, Surplus and Undivided Profits | $ 6,987,839,489.82 |
| Total Deposits | 50,497,308,942.13 |
| Total Resources | 60,511,845,463.73 |

# Vigilantes Revived to Check Holdups

THE vigilante movement, as a means of protecting banks against the daring bank holdup bands, is spreading in the middle west.

Minnesota is the latest state to embrace the plan of setting up a system of volunteer gun squads to cope with the lawless activities of the marauders in the country communities. Iowa was the first state to revive the vigilantes. Four years ago the bankers of Iowa organized, with the assistance of the merchants and other interests, a volunteer constabulary to deal with the growing menace of the lawless, roving bands of robbers, who were robbing banks and terrorizing communities not equipped to protect themselves. Rifles and other equipment were purchased from the War Department to arm the men who agreed to serve without pay to deal with the yeggs. There are now about 3900 vigilantes operating in Iowa under the direction of the county sheriffs.

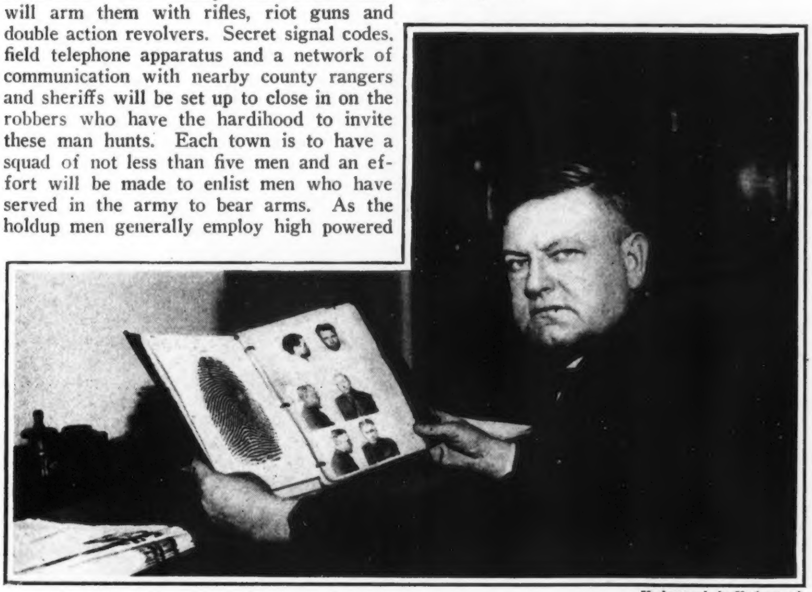
As an indication of how effectually the vigilantes dealt with the bank holdup men and robbers, the rates charged by insurance companies for covering banks against holdups was reduced on the first of this year from $1.50 to $1 per thousand. Iowa was the only state in the union to obtain a reduction.

ENCOURAGED by the success of the protective measures taken by the bankers in Iowa, Indiana and Illinois, bankers elsewhere are setting up similar organizations, and the Minnesota Bankers Association, in July, indorsed the plan of creating a body of county rangers. Indiana calls her gun squads town guards, while Iowa and Illinois terms them members of the vigilance committees. It is contemplated that there will be about 2500 county rangers in Minnesota. The county bank associations will arm them with rifles, riot guns and double action revolvers. Secret signal codes, field telephone apparatus and a network of communication with nearby county rangers and sheriffs will be set up to close in on the robbers who have the hardihood to invite these man hunts. Each town is to have a squad of not less than five men and an effort will be made to enlist men who have served in the army to bear arms. As the holdup men generally employ high powered automobiles, a system of barricading the roads and sending out alarms that will arouse the surrounding country to be on the watch for the speeding outlaws will be perfected.

WHILE $1 per thousand is the minimum bank robbery rate, it has soared far beyond that mark in states where the depredations of the criminals have been widespread. In April the rate in Illinois advanced from $4 to $6 and this rate was applied in Kansas. In Oklahoma it now costs $10 per thousand as compared with the former rate of $4. In Minnesota the rate is $1.50 but the bankers hope to reduce it to the minimum through increasing their vigilance.

Recently the Chicago and Cook County Bankers' Association gained national attention by placing a price of $2,500 on the head of each bank bandit, killed while robbing or attempting to rob any member bank. Since early this year, the association has maintained a patrol of armed guards, which cruises about the districts ever on the alert to deal with the bandits. The association now has seven patrols, equipped with sidearms, sawed off shotguns and high powered rifles and ready to give chase in the swiftest motorcycles and automobiles.

IN Oklahoma, where the bank robbery situation has been more serious than any where else, the bankers have subscribed funds to create a county vigilance system to check the holdup men. The members of the committee are to be deputized and are to work with the sheriffs. The bankers hope to subdue the bandits in Oklahoma by this state-wide organization. In several counties vigilance committees have already been organized and the movement is gaining impetus.



Underwood & Underwood

*R. C. Saunders, new director of the organization that the Illinois Bankers Association has set up to drive bank bandits out of the state. Saunders was formerly chief of police of Des Moines. He is shown here looking over finger prints and Bertillon views of thugs wanted for depredations against banks*

## Saving Plan

*(Continued from page 80)*

month habit. It sends out a monthly bill to depositors who request it, notifying them that they owe themselves a certain amount monthly for their own savings account. Whereupon the depositor, busily writing out checks for the payment of mere debts, sends the bank the amount of money that he owes for his savings account and thus engages in a system of scientific accumulation.

The plan takes advantage of that frailty in human nature to slight the things that are optional and to do only those things that are more or less mandatory. There is nothing complicated about the plan. The bank's notice simply reads: "This is to remind you of your intention to SAVE the sum of $—— each month." The reminder is mixed among the incoming mail at the period of the month when a settlement of accounts is being made and jogs the memory about this important matter of getting ahead. The scheme is simplicity itself. The cost is not too much for any bank to assume and, in most instances, the plan could be put into effect without any more personnel.

Officials of the savings bank using this plan think that it is too early to judge whether or not it will be successful, as it has been in operation less than three months. No effort was made to circularize the depositors of the bank, chiefly because it was feared that fully half of the letters would be returned due to faulty mailing addresses. The depositors generally do not notify the bank when they move, so the postal list becomes inaccurate and the circulars do not reach them. However, when the depositors have come to the bank, the tellers have given them the cards and have explained the plan briefly, when the waiting line was short, and this could be done without inconveniencing the patrons.

### *Loree's Simple Rule*

TO acquaint the public with the idea of "paying yourself the money you owe yourself," the bank used newspaper advertising. It reproduced a letter from a depositor, who told of how easy he had found it to set aside a fixed sum every month when the periodic reminder came to him. Another advertisement recounted how L. F. Loree, president of the Delaware and Hudson Railroad, had made this simple discovery:

"I tried very hard to save money, but results were disappointingly small until one day I tried a new plan," Mr. Loree said. "Just put a definite amount in the bank when I first got my pay—and lived on the rest. From that time on I began to get ahead rapidly; the money in the bank grew regularly and surprisingly—and I didn't have to think and skimp all month. We just spent what was left."

The simple rule that Mr. Loree discovered as an aid to success may be followed by any individual, the bank insists, and offers to do its part by supplying the reminder. More than 300 availed themselves of the coupons appearing in the advertisements during the first six weeks of the campaign to inaugurate the periodic saving scheme.

Prior to the introduction of this plan of promoting savings, the East River Bank sought to enliven the savings urge by offering to its depositors a "Lease on a Bank Roll." The agreement, which resembled a strict legal document in wording and in form, fixed a definite fund to be created by the depositor through weekly, semi-monthly or monthly payments to continue until the bank roll reached the goal. There was no penalty for the failure of the depositor who fell by the wayside, and the money could be withdrawn at the will of the individual obtaining this lease. The agreement was a novelty designed to stimulate the depositor by making him feel that he had a real commitment to meet. In practice, however, the bank found that the depositors were a bit skittish about signing the agreements, fearful lest they enter into something that would tie up their funds. So the "lease on the bank roll" was thrown into the discard in favor of the more simple scheme.

These two plans are fresh illustrations of the efforts that savings banks throughout the country are making to stimulate savings through providing a vivid incentive. They are different from most of the club plans in that they tend to keep the money in the bank. From the practical standpoint they do not involve as much clerical work and expense. While "living insurance," in the final analysis, is nothing more than the accumulation of sizable savings, the idea is dressed up to catch the interest of the public—and arresting the interest in a favorable manner is the first step in any successful selling plan.

The monthly statement plan has been adopted by the Minnesota Loan & Trust Company of Minneapolis as a means of prodding savers along. It follows the same lines as the system employed by the East River bank, the depositor being billed monthly for an amount fixed by himself.

## Condition of Business

(*Continued from page* 94)

includes to a large extent goods moving into retail trade channels and into consumption. The decline shown with reference to 1923 in "all other" loadings reflects chiefly smaller movements of coal, coke and ore in several districts.

### *American and British Trade*

IN the fiscal year ended June 30, exports of merchandise from the United States exceeded merchandise imports by slightly over a billion dollars. This is the largest "favorable" balance of trade of the United States since 1922. Most of this large balance was piled up in the first 9 months of the fiscal year (as shown in the diagram on page 94, prepared by the Federal Reserve Bank of New York) and reflected chiefly the unusually heavy export of cotton and grain at high prices. Great Britain was one of the principal takers of these products, and a very substantial increase is evident during those months in her total imports, shown in the right half of the diagram. An additional factor operating in June was the desire of American manufacturers to rush goods into Great Britain before the McKenna duties were re-imposed on July 1. These duties apply particularly to such important articles of American export as motor cars, silks, and other manufactures, vast quantities of which are reported shipped into England just before the new schedule of duties went into effect.

British exports during the past year have shown little increase, so that the spread between exports and imports has been larger than at any time since 1920.

The continual "adverse" merchandise balance of Great Britain has, in past years, to a large extent been offset by a favorable balance on the other items which figure in the sum total of international payments. The most important of these items—the so-called "invisible" elements in foreign trade,—include interest and dividend payments, charges for freight service, insurance, premiums, repayments of loans, and many others of like character. For the year 1924, the British Board of Trade estimated that payments to Great Britain of this kind were slightly more than enough to offset her merchandise import surplus of some £330,000,000.



### *Sterling Since Resumption*

THE high level of Britain's imports, with failure of exports to expand, has caused anxiety lest the invisible items of trade be insufficient to balance up this year. Such a situation would normally be followed by a declining rate for sterling exchange, and, if the exchange rate fell below the point at which it was profitable to export gold, by the withdrawal of gold for export. It was feared in some quarters that such a development might threaten the success of the gold resumption plan, which is now being carried out.

Aside from a temporary reaction of about a cent late in July, reflecting the threat of a coal strike in England, sterling has held only slightly below full gold parity since restoration of the gold standard. The real test of the sterling market would normally come in the autumn, when the seasonal increase in the European demand for dollars with which to pay for American exports coincides with the seasonal increase in pressure in the New York money market at crop-moving time. Several factors have been provided, however, to overcome this difficulty. Internal use of bank notes, which grew up in the war, is being continued in order to conserve the gold supply for international trade. Dollar credits necessary for the December payment on the British debt to the United States have been accumulated in advance in order that the Treasury may not need to compete for dollars in the exchange market in the autumn when large seasonal purchases of cotton, grain and other raw materials are being made. Finally, a credit of $300,000,000 is available in the United States to be used if required to strengthen the sterling market.

The actual course of events since the restoration of free gold payments in Britain has been reassuring. There has been a marked trend toward the pre-war habit of remitting foreign balances to London for deposit and investment. At the end of July, the Bank of England's gold reserves showed a net gain of about £8,500,000 since gold resumption, and they were at a new high record for all time. The ratio of reserves to liabilities rose to nearly 32 per cent, the highest since June 21, 1916. This

addition to the country's gold holdings has served to broaden the basis of credit, has tended to ease in money conditions and strength in security prices, and has allayed for the time the fear of a rise in the official bank rate.

Banking economists clearly recognize that over a period of years there is a normal sequence in the type of securities used in corporate financing. The decision as to whether bonds or notes shall be used depends at any time to a large extent on the interest rates then prevailing and the prospective course of interest rates, especially for long term money. The relative proportion of the total financing, which shall be in stocks, is greatly influenced by prospects for business prosperity and profits.

Short term notes are used most frequently in periods when long term interest rates are high and when the prospect is for a decline in such rates after a few years. Such a situation is apt to occur toward the end of a period of rising prosperity, when business assets are in a non-liquid condition and credit resources greatly expanded. With the gradual liquidation of these frozen assets, credit conditions become easier and long term interest rates, as represented by yields on bonds of distant maturity, decline. During this phase in general business and money conditions, long term bonds, which at any time usually constitute the bulk of corporate financing, become an even larger part of the total. After business depression is past and signs of renewed prosperity and enlarged profits are at hand, stock issues begin to increase in proportion to the total.

This normal sequence of notes, bonds, and stocks does not in practice always appear so clearly defined, because of the presence of unusual conditions. During recent years, however, the sequence has in a general way been in line with the principles above stated. The accompanying table, based on compilations of the Commercial and Financial Chronicle, shows for the first six months of each of the last five years the percentages of notes (maturing in less than five years), bonds (maturing in over five years), and common and preferred stock, to the total of domestic corporation securities issued. Refunding issues as well as new capital are included.

| *First Half of* | *Per cent of total in* *Notes* | *Bonds* | *Com. Stock* | *Pref'd Stock* |
|---|---|---|---|---|
| 1921 | 11 | 79 | 7 | 3 |
| 1922 | 6 | 76 | 6 | 12 |
| 1923 | 7 | 69 | 10 | 14 |
| 1924 | 10 | 63 | 20 | 7 |
| 1925 | 8 | 67 | 10 | 15 |

The year 1921 was marked by business depression, following the unhealthy prosperity of 1919 and 1920. Interest rates, both for long term and short term money, showed substantial declines from the peaks of 1920. Due in part to the decline in long term money rates, the proportion of bonds issued was even larger than usual and the proportion of stocks was unusually small. Expansion of business activity and improvement in business earnings which began in 1922 were accompanied by an increased proportion of stock issues and a gradual reduction in bonds. By 1924, stock issues, which in 1921 constituted only 10 per cent of all domestic corporate financing, had increased to 27 per cent. The expansion in stock issues represented to a large extent increased public utility offerings, in many cases under the customer-ownership plan.

Although interest rates were declining during this period, the cause of the decline lay chiefly in the large amount of gold which was being imported rather than in slackening of business activity. Accordingly, the normal tendency for bond offerings to increase along with falling interest rates was obscured. However, with the further decline in long term interest rates during the first half of 1925 to the lowest levels since 1917, the tendency to issue long term bonds has reasserted itself, and the proportion of such securities has shown an increase over last year. Stock issues, however, have continued prominent.

### Savings Bank Booklets

THE Savings Bank Division of the American Bankers Association has now available booklets on the following subjects: "Something to Think About," "What Should Be the Character of a Savings Bank Bond Investment Account," "Methods of Paying and Figuring Interest," "Bank Promotion," "When the Banker Knows His Customers Personally," "The Savings Manager and His Duties," "The Savings Bank Insurance System," "Savings Department Records and Methods," "Bank Window Display," and "School Savings."

Copies of these booklets will be furnished to any member of the Association on request.

## Cash or Crash

(*Continued from page* 74)

mercial enterprises is an extremely pleasant one, but the necessary teeth are lacking in the shape of cash. Hence many big concerns which have abundant orders are obliged to restrict production through mere lack of working capital for wages and raw materials.

The mixed trusts have no longer any reason for their existence. In so far as they expanded beyond their original coal, steel, and engineering basis into heterogeneous enterprises, they never at any time were justified. In so far as they merely fused and combined with enterprises in allied branches they once had a justification, but this justification has disappeared. In 1919-1923 coal, iron and steel were short in Germany. A smelting corporation that bought control over a Ruhr coal corporation had the very good reason that it must secure a supply of fuel. Similarly, an engineering or shipbuilding corporation had good reason for entering a steel combine; thereby it secured a supply of raw material. Today Germany has more coal, iron and steel than she can consume, and her former passive trade balance in these commodities has become active.

### *But the Trusts Hesitate*

THE good reason for the foundation of most of the horizontal and vertical trusts has therefore ceased to apply. A reasonable proportion between locked-up capital and working capital is the imperative need of industry, and that can only be restored by realizing hypertrophied industrial interests.

This conclusion was formally proclaimed by the banks which saved the Stinnes concern, and all sound German experts admit its cogency. But the trusts hesitate. They are still infected by the Stinnes megalomania. Even concerns which are in financial difficulties resist obdurately any reduction of their magnitude and prestige. It needed an acute financial crisis to force the Stinnes concern into the path of retrenchment and concentration, and nothing short of other crises of the same kind will force Stinnes' imitators into the same path.



## Less Money Needed

THE American people are finding that they need less money in circulation to meet their needs. On July 1, there was just $41.49 in circulation for each person. This was thirty-one cents less than the amount of money out in circulation a year prior to that date.

At the peak of post-war prices, the per capita circulation was $52.36, the figure for November 1, 1920.

Shortly before the world war broke out, there was $34.35 in circulation for each American. In view of the rise in prices since that time, it would appear that the American people are using less money for the volume of business done. This is partially due to the increasing use of checks for the settlement of debts and the growing tendency to do business on a credit.

## Unrest and Business

(*Continued from page* 78)

out of a most difficult situation. It is true, but one should not bind one's self to current facts.

No student of American commercial development or international commerce can fail to have anything but the utmost confidence in the ultimate development of the Orient. With our exports showing a decreasing percentage of raw materials and increasing percentage of manufactured commodities, and our import figures revealing the opposite tendency, the significance of Asia as a source of raw materials and a market for manufactured articles needs no emphasis. The possible development of the Far East through the course of years staggers the imagination. There can be no question as to what it means to the United States of America. It is imperative that men interested in business, men interested in national welfare, turn their serious attention to what is likely to happen in the Orient. We should remember that what happens there does not depend solely on what happens on that side of the water, but also on what happens here, now, and with us. It is extremely important that we learn the real facts, that we insist that our representatives keep in touch with the real situation. Only so can we formulate a sound policy and exercise that broad vision so imperative to our own well-being and to the peace of the world.

## Only Method

(*Continued from page* 88)

Banking has had to make its concessions. First, the majority of the private bankers were induced by reason and suasion and the more reluctant compelled by law to recognize their quasi public function and accept public charters and supervision. But individualism persisted in its determination to "run its own business," and that stubborn attitude is responsible for much that has been criticized in banking. In spite of charter limitations and exacting supervision, many bankers have clung to outworn ideas, dangerous policies and hazardous credit instruments and methods.

Because of this stubbornness on the part of a few, supervision has not had adequate cooperation, failures have occurred and banking the business, and banking the fraternity, have come under criticism and discredit. Because of this measure of discredit quack doctors everywhere have found it possible to prescribe nostrums and confuse the public mind, as to the basic principles of banking, and especially the means for attaining the largest measure of security without destroying the indispensable initiative and discretion of good banking. Just as bank guaranty has failed because of its inherent immorality and disappointed its proponents as an agent of safety, so supervision has lacked complete effectuality because we as individualists stultified and prevented it.

Now comes the proposal not only, but the institution of branch banking promising, to furnish the security long sought by both the public and the banking fraternity.

California is today solidly established as a branch banking state. Ohio, Michigan, Louisiana and New York stand with her. Efforts are being made in other states as well as in Congress, through the Comptroller's office and the Federal Reserve Board, for the further and broadly expanded extension of branch banking. What is the significance of it? We are compelled to grant the honesty and sincerity of purpose of most of the proponents.

### *Men of Alien Views*

THERE is a group of men of foreign origin, and unassimilated alien views, who have never intended to conform to American ideals or ways, and who for many years have been indefatigable in their efforts to belittle American financial methods in comparison with European banking. From these men we would expect no cooperation in holding to the traditional American individualism and democracy in finance.

On the other hand, there are outstanding American bankers who today see no alternative but branch banking, furnishing as they think it does, the long sought security for depositors, the expanded and improved banking service and the regulated compensation for that service which are the three considerations long sought.

It is not to be our purpose to argue the pros and cons of branch banking, but rather to present what seem to be the alternatives if we would avoid acceptance of general branch banking in the United States. In doing so we may realize that they are the motives which will be indispensable even though branch banking may become the final form of our American system. I refer to the principles of cooperation as opposed to the old system of individualism.

We observe everywhere about us an immutable force of consolidation. The biologist sees it everywhere in nature as simpler forms of life aggregate into larger and more complex individuals. Socially we cannot avoid the same basic natural force. Today in America there are the systems of chain stores. There are the super-power units in the field of public utilities. There is the accepted belief that the railroads must ultimately be gathered into one or, at most, a few large systems. There is today practically one telephone system in the United States. There has long been practically but one telegraph system. The packing industry has necessarily drawn itself into a few close related groups. Chains of banks have not progressed so logically, probably for psychological reasons. Government has tended in recent years to centralize at Washington, notwithstanding the recrudescence of the ancient body of states rights opinion.

### *Vice Governor Platt's Views*

VICE GOVERNOR PLATT is quoted as advocating branch banking on an enlarged scale. He predicates his case upon the great number of failures of small banks, occurring at the rate of six or eight each week, or 274 since Jan. 9 and including May 15 of this year. He believes that large banks

would afford better management, better distribution of risks by groups and territory, and a better type of banking service through branches to rural communities.

Whether the present system of individual banks, community banks and home banks is to continue depends upon their being made to afford the qualities claimed for branch banking. I believe that this is possible, but its possibility depends upon our willingness to make a simple and indispensable concession of what we regard as individual rights, so that the community interests may be served.

Branch banking in Canada has experienced criticism in recent years from the same class of critics who assailed the dissociated individual country banks of the United States. In Minnesota we had before our legislature in a recent session a prosposal for cooperative banks, free from banking department supervision, and intended as an adjunct to agriculture and the agricultural cooperatives. Contemporaneously the Provincial Assembly of Manitoba had the same project before it, and, despite the splendid system of branch banking in Canada, did actually set up cooperative banking and with it a system of savings banks to provide the loanable funds. So it appears that Mr. Platt's prescription of branch banking for American rural districts lacks concurrence in agricultural Manitoba.

### *Preservation of Home Banks*

AFTER all, the qualities of security, service and graduation of service costs do not lie in systems but in the spirit of those who conduct them. Give the incompetent, the criminal, or the extortionist any system you like, and he will distort it to his uses. It is the realization of this undoubted fact that gives hope for the preservation of the best frame work of our present admirable system of home banks, with permanent resident management, boards of local directors and a vision looking out into the local community life.

The need is not for a new system but for a new spirit actuating the personnel of American banking, or if their resistances cannot be overcome, then as far as required, a new personnel. The banking group should become most inhospitable toward those who will not be governed by the best accepted principles of banking. A professional group consciousness, rather than acquiescence to general monopoly, should be the means of creating this new spirit. If it cannot be created along professional lines, then it is inevitable that branch banking will be called to the rescue and there will be a Big Five as in England.

If a Big Five or a Big One is the logic of events, we must accept the logic. Before we accept it, are we ready to do some work and make some personal contributions to the thing of which we are a part? Refusing these contributions we must continue to see branch banking substitute itself gradually where we are failing to afford the three great requisites—security, service and moderation of compensation.

### *Lost to the Reserve System*

DURING seven years past 206 national charters have been given up in exchange for state charters, chiefly because of the trends mentioned. Thereby $2,234,000,000 in resources have been lost to the Federal Reserve System, or approximately 10 per cent. By so much the burden of maintaining that incomparable policy of panic and liquidity insurance has been thrown upon the remaining members to bear vicariously for all.

In the United States the issue is drawn in all sincerity between two great groups, one of which believes that branch banking alone can cure all the ills from which our banking situation suffers, and the other believing that there is enough of the admirable, the useful and the beneficial in the old system of individual banks to deserve its preservation and improvement.

The branch banking advocates point to the rest of the world, willingly served by systems of branch and centralized banks. They claim for these systems, a standardized quality of service uniform practice, a superlative quality of management, a common fund of experience readily interchanged through head offices and instantly available to all parts, the better distribution of risks and hazards, a continuous audit and intramural supervision based upon a centralized credit bureau, which reduces the hazards to a negligible percentage.

The champions of the present system of independent units point with pride to its achievement in developing frontier districts, its sympathetic understanding of local conditions, its development of local initiative and resource, its evaluation of the personal qualifications, its recognition of and emphasis of the moral rather than the asset basis for credits, made possible by its lo-

calized setting and organization, and its freedom from non-resident and impersonal control.

Analyzing all of these considerations on every side and putting them with our historical investigations, it appears that the challenge to individualistic banking comprises the following counts:

1. Lack of Security
   a. Inadequate governmental supervision
   b. Excessive risks assumed in competition
   c. Incompetence and inexperience of personnel.
2. Inadequacy of Service
   a. Dissociation of banks
   b. Multiplicity of methods and policies
   c. Diversity of forms and instrumentalities.
3. Confusion in Compensation Bases
   a. Multifarious methods of computation
   b. Entire want of uniformity in charges for service.
   c. Making certain operations pay the cost of other services rendered gratuitously.

Can these specifications be met and the deficiencies supplied? Many say that it cannot be done, except through branch banking. Are they right?

## *Clearing Houses, the Hope*

WHEN an exigency arises, we gather the best advisers into a council. They take account of the situation and suggest expedients. Our bankers' associations have long done that, and it is to the most advanced forms of bankers' associations that we must look for the rehabilitation of individualistic banking. The recently developed county units and the clearing houses and a combination of the two with bureaus of credit must furnish that cooperation which will keep individualistic banking abreast with the age. Unless this is forthcoming there is no alternative but branch banking. We must put forth our best energies to prepare for the one or the other.

The factor claimed for branch banking is this same machinery and spirit of cooperation. The cooperation is under compulsion through a unified administration and thus made effective, just as royal prerogatives are enforced. In a democracy it would appear that men of vision and experience could combine their counsels and standardize their practices through cooperative association.

Through city and county clearing houses we can supply our deficiencies of organization, and through organization we can set up the needed standards and uniformities. What we need today is the spirit of cooperation and the willingness to make personal and sacrificial contributions to the profession of banking.

Every community with two or more banks should at once set up a clearing house. Every clearing house should be a voluntary association created for certain distinct purposes, conforming to some standards of general recognition.

## *The Menace of One Bank*

FIRST there should come acceptance of the fact that the interests of all are in the hands of each, and that one unsound or unprofitable bank is a menace to all the rest. Elements of competition known to be hazardous should be frankly condemned and avoided. These include the dividing of accounts, the duplicating of credit lines, buying of business, over-bidding for public funds and other interest-bearing deposits; the unprofessional use of gifts, prizes, donations and fictitious advertising to gain preferences, the reception and dissemination of harmful gossip about competing banks. All these militate against banking security and the public confidence, which is one of the indispensable factors of security in its largest sense.

Through clearing houses and county units there is developed a new spirit of mutual respect and confidence which can go still farther in supplying the indispensable cooperation.

Definite credit data can be assembled and intelligently used. The clearing house or county unit credit bureaus then become a county advisory banking board, or discount committee. Duplicate credit lines can be eliminated, shoppers recognized and credits stabilized. This has been done in the great metropolitan clearing houses and is being done in several counties, notably Jasper County, Mo.

The clearing house properly takes over the problem of public relations and public education on banking subjects. Necessary inauguration of new method or practice or changes are carefully and studiously presented to the public through a qualified com-

mittee in advance, and the public intelligence satisfied. Cooperation of the public is best obtainable through concerted action of a recognized clearing house.

### *"I'll Run My Own Bank"*

HERE the individualist cries out suddenly that he will "run his own bank." The answer is that he will not for long, because cyclonic changes are in progress in the banking world, and the past ten years will not bear comparison with the next ten. The banker who insists upon going it alone, in entire disregard of his fellows, setting up his own standards, disregarding the fast-growing code of banking ethics and refusing cooperation must accept complete elimination within the next few years. He will constitute an unendurable hazard to the practice of safe banking, will offer inferior service and, disregarding the essentials of scientifically graduated compensation, eliminate himself and go into the discard.

Clearing houses will, through cooperation, reorganize the whole basis of compensated service. Banks cannot hope indefinitely to pyramid their entire operations upon the spread between rates on deposits and loans, but will work gradually to the basis used by all other nations except ours, of making each banking operation or service pay its own cost and a profit. Cooperation alone can accomplish this, unless we turn to branch banking, when this will, of course, be done forthwith.

Clearing houses take out of the day's work the fear that we have of each other regarding donations and advertising, which fear is sedulously employed by the pressure salesmen and the committees from soliciting bodies. Hereafter we will make donations when at a clearing house meeting we deem the donation for the public good alone and a proper object for ratable donation by all the banks or none. Advertising we will buy when it is true advertising and within an agreed definition of standard advertising.

The handling of past due paper, overdrafts, collection and service methods and fees, the safeguarded furnishing of credit information, the treatment of holidays, banking hours, the education and training of junior officers, tellers and clerks, are all within the natural province of a county unit or clearing house. In Minnesota, the Olmstead County Bankers Association has organized the Olmstead County Chapter of the American Institute of Banking, and is carrying on the full courses with fine interest and results.

There are only 330 clearing houses in the United States. There ought to be 5000 additional organized at once. It is the hope and aim of the Clearing House Section of the American Bankers Association that large progress in this direction may be made at once. In Minnesota we had in 1918 but four clearing houses. Now there are ten and two others in process of organization. Every city or town with two or more banks should equip itself at once with a clearing house association and the cooperative spirit.

The public is patiently expecting the banking profession to put its house in order and will interfere only when we fail to meet valid criticisms.

Successively it has condemned and forbidden practically everywhere the old-time private, unsupervised banks. It has imposed upon all banks a measure of governmental supervision.

It is experimenting now with supervised chartered independent banks. If they do not realize the public's hope, then other expedients will be found. Among these are branch banking, cooperative banking and as a last resort public owned banks. This final form is undesirable and will be adopted only where we fail to supply the internal cooperation which is needed.

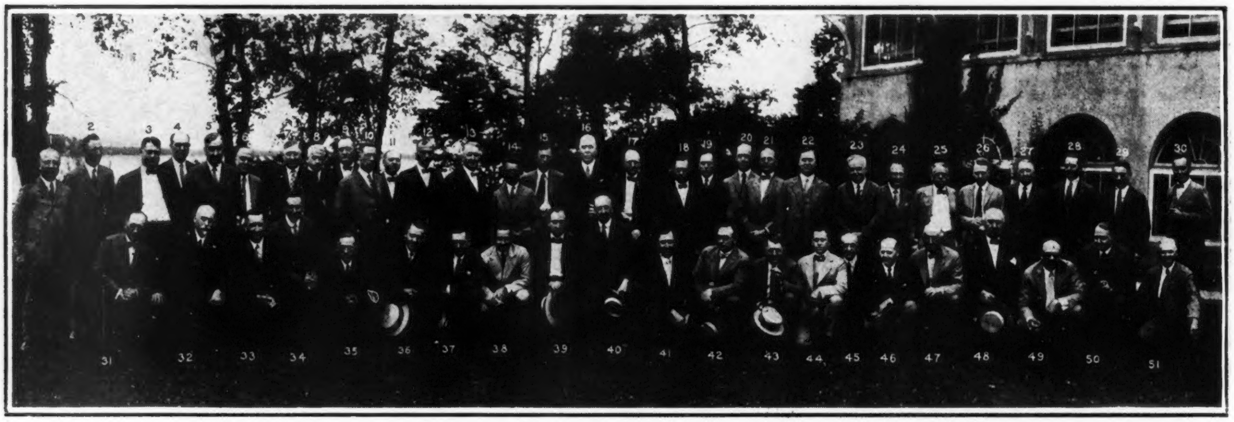
All these things have to be initiated. They will not be accomplished in a moment of time. They do not constitute a mere expedient. They are basic and evolutionary. They will fit into any future development which the times may impose upon that age-long social servant—banking. We must all fall in with the new force of cooperation. It is either cooperate or eliminate.



#### Direct Loans to Farmers

Loans made to farmers by the Federal Intermediate Credit banks were greater during the month of May than at any time in the history of the system, Commissioner R. A. Cooper of the Farm Loan Board announced. Direct loans in May aggregated $9,415,270. Loans by the banks in the form of rediscounts amounted to only $4,514,000.

# Uniform Banking Laws Progress



*1—H. Von der Weyer; 2—I. E. Hansen; 3—J. A. Wright; 4—G. A. McCarraugh; 5—Gilbert Semingson (State Bank Examiner, North Dakota); 6—D. H. Lightner; 7—Oscar Nelson (Bank Commissioner, Illinois); 8—A. H. Kennedy; 9—F. R. Smith (Superintendent of Banks, South Dakota); 10—O. B. Mothersead (Superintendent of Banks, Oklahoma); 11—L. H. Ickler; 12—N. B. Shaffer (Chief Examiner, Iowa) 13—E. L. Thornton; 14—M. F. Ernst; 15— E. C. Turnquist; 16—Frank W. Simmonds (Deputy Manager, American Bankers Association); 17—Roy L. Bone (Bank Commissioner, Kansas); 18—J. G. Fry; 19—A. J. Newgren; 20—W. H. Honebrink; 21—P. O. Skoglund; 22—W. D. McRae; 23—L. A. Andrew (Superintendent of Banks, Iowa); 24—J. S. Brock (State Bank Commissioner, Louisiana); 25—J. A. Oace; 26—John A. Erickson, Jr.; 27—W. J. Regan; 28—E. W. Swanson; 29—A. W. McNee; 30—F. H. Delaney; 31—A. L. Roth; 32—E. H. Wolcott (Bank Commissioner, Indiana); 33—George V. McLaughlin (Superintendent of Banks, New York); 34—A. J. Veigel (Superintendent of Banks, Minnesota); 35—R. N. Sims; 36—Clarence Latham (Chief Examiner, North Carolina); 37—Howard Evans; 38—T. J. O'Connell; 39—M. E. Bristow (Chief Examiner, Virginia); 40—John S. Fisher; 41—R. G. Dickinson; 42—Roy A. Hovey (Commissioner of Banks, Massachusetts); 43—Guy Dailey; 44—Robert C. Clark (Commissioner of Banking, Vermont); 45—Grant McFerson (Bank Commissioner, Colorado); 46—S. S. McConnell (Superintendent of Banks, Tennessee); 47—W. H. Richards; 48—H. E. Scott (Superintendent of Banks, Ohio); 49—Philip C. Berg; 50—Colonel Marshall Cousins; 51—F. E. Pearson*

WHILE fair progress is being made in the direction of more uniform laws, the time probably will never come when all of the states will have the same banking laws, the National Association of Supervisors of State Banks was told at its twenty-fourth annual convention at St. Paul on July 21-23. Outlining the activities of the committee working in cooperation with the American Bankers Association and the American Bar Association to have identical laws covering basic banking operations adopted by the states, John S. Fisher, former bank commissioner of Pennsylvania, reported that complete uniformity probably never would be attained, inasmuch as each state and section of the country had certain peculiar problems which could be best met by more flexible state laws designed to meet these special situations. Nevertheless, the committee felt that certain general principles of uniformity can and should be agreed upon towards which all states should work regarding the basic principles of state banking laws and adequate bank supervision.

In more than twenty states, new bank legislation was adopted during 1925 or old laws were amended. The general trend of state legislation is toward increasing the power of state bank commissioners, especially in granting or denying new charters for banks, acting as receivers for closed or failed banks and increasing the number of bank examiners and increasing their salaries.

Much new legislation, providing closer supervision of building and loan associations, was reported.

Several states made farm loan bonds eligible for savings banks, and enacted laws authorizing the creation of credit unions and providing for their regulation. The creation of state banking boards to act in advisory capacity to the state bank commissioner was provided for in a number of states.

The changes in American banking that have been wrought by ten years under the Federal Reserve Act were reviewed by J. H. Case, deputy governor of the Federal Reserve Bank of New York.

The rapid growth of credit unions was reviewed by Roy A. Hovey, commissioner of banks for Massachusetts, who reported that twenty-three states had passed enabling laws, Iowa, Minnesota, West Virginia, Michigan and Illinois having acted this year. He stressed the necessity of their being closely supervised in order that they may be kept on a sound, helpful basis.

Bank Commissioner H. E. Scott, of Ohio, discussed how supervision could be made more effective and valuable to the public and to bankers. He indicated the need in a number of states of legislation strengthening the hands of the state bank commissioner. The growth of trust departments has brought new problems in supervision, he said, as the most intimate relations that can arise are involved.

THE results of the recent nation-wide survey, made by the State Bank Division to determine the conditions in the several states under which the bank commissioners were working, was presented by Frank W. Simmonds, representing the American Bankers Association.

The conclusions reached through the survey were that the important office of bank commissioner should be freed from any entangling partisan politics and divorced from all other functions of state government, and that the tenure of office of the commissioner should be more secure and lasting, with sufficient compensation and discretionary power granted, to attract and hold men of outstanding executive ability and successful banking experience.

O. B. Mothersead, bank commissioner of Oklahoma, addressed the convention on the subject, "What Safeguard Should Surround Authorization of New Banking Institutions?", pointing out that banking as well as any other business could be easily overdone and disastrous competition established which would be ruinous not only to banking but to banking interests as well.

George V. McLaughlin, superintendent of banks in New York, was re-elected president of the association. He reviewed the association's activities in seeking to have the McFadden bill amended so that state banks, which were members of the Federal Reserve System, would have been placed on a parity with national bank member banks when it came to the question of obtaining the right to establish branches. Grant McFerson, of Colorado, was elected first vice-president, Peter G. Cameron, of Pennsylvania, second vice-president, Charles McKee, of Little Rock, third vice-president and R. N. Sims, of New Orleans, was re-elected secretary-treasurer.

## Cooperative Marketing

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Today the raisin industry as represented by the Sun-Maid Raisin Growers of California and its subsidiary service corporation, the Sun-Maid Raisin Growers Association, is sound and vigorous. Markets have been expanded to nearly twice what they were before the war. Speculation has been taken out of the commodity which now is a year-round staple instead of a seasonal delicacy. Conversion methods have been devised which will utilize every surplus and low quality raisin delivered to the cooperative and take them out of competition with the remainder of the crop. The service corporation has $8,000,000 in working capital and maintains a ratio of five to one between its quick assets and current liabilities. From a weakened condition, almost approaching bankruptcy, the raisin industry has been brought back by cooperation of the growers to a position of security in which it is able to borrow millions at favorable rates of interest because there is a market for every raisin delivered to the cooperative and those raisins will be handled efficiently and economically.

But a sound organization and capable management are not all that is needed in cooperative endeavor. I have purposely left for the last the truth that cooperation rests on the growers who produce the commodity to be marketed. An association must be built from the ground up, not from the top down. The mere adoption of the principle of cooperation is not in itself a magic formula to assure success. Only as the growers come into the association voluntarily, understanding what they are doing and assisting intelligently to that end, can a cooperative organization expect the greatest success.

Dr. Edward M. East of Harvard, in his book, *Mankind at the Crossroads*, quotes Dr. Vernon Kellogg as to the average man's attitude toward science, psychology and economics, and what he says has a distinct application to agricultural cooperation. It was not so many centuries ago, he points out, that the body of man was considered so sacred that he who attempted to dissect it in the interest of science was in danger of mob death and the humanitarian benefits of medicine were delayed by just that much. Mankind has overcome that attitude, but the same spirit still exists in some measure as regards the human mind and economics.



### *Every Man His Own Economist*

"THE difficulty lies largely in allowing one's own inaccurate and limited observations to determine his judgment regarding technical matters, which for proper understanding require a background of special training," is the comment made. "Conclusions of economics and of sociology would be received more readily were every man not his own economist and sociologist."

It is remarked with keen humor that professors of astronomy are accepted readily—"so few of us have telescopes."

And as nearly everybody has a dollar, it may be added, nearly everybody is ready to solve the problems of the world by telling how the purchasing power of the dollar can be made greater and how those in charge of any line of work could have done much better than they did. The remedy for this universal attitude which at times may become hindering meddlesomeness is not secrecy, but understanding. If a man knows why a thing is being done and comprehends something of the problems which require a background of special training, he will be willing to take advice instead of being his own economist and will test results by actual conditions involved instead of by his own "miscellaneous personal observations and prejudices and desires and hopes and beliefs."

Those who have protested that agricultural cooperation was certain to fail because the farmer had a reputation for being astigmatic overlooked the possibility of education along lines which up to the present he has had little opportunity to know. I do not suggest that it is possible to turn a layman into a trained economist by a few lectures and leaflets. I do say that the farmer responds to training in financing and distribution as well as any other class of our citizens would respond.

### *They Get the Facts*

TAKE the rice growers, for instance. A visitor to the rice country of California will hear the men of the soil discussing intelligently the exchange value of the yen, the New York silk market, and the August weather reports from Japan, because all

*Floyd R. Harrison, appointed by President Coolidge to be Director of the War Finance Corporation*





these things have a direct bearing on the price of their rice and they know why they have. Cooperation has taught them.

In the Sun-Maid organization, an Advisory Council elected directly by the growers meets at least once a month with the management, discusses both internal and external phases of the business, then reports back to unit meetings. A monthly magazine, carrying sales data, financial statements interpreted for laymen, cost charts, and news articles, goes to every member to enable him to study his business at leisure. Three years ago conversion was purely a religious term in the raisin district; now it is a fundamental policy whereby raisin syrup is going to equalize supply and demand and eliminate carry-over in the future and the growers know so much about it that an expenditure of $600,000 for a raisin syrup plant in Fresno is approved unanimously as one of the greatest forward steps the industry has ever taken. They know why.

With understanding such as has been achieved in these two instances, the management of a cooperative organization can go ahead with the full support of the men on whom the industry rests. He cannot do so otherwise, because cooperation, like most other things in this world which have a solid foundation, rests on the soil.

## Conserving Estates

*(Continued from page 87)*

There are many instances in which it is best for the insured to provide for installment or income insurance. If there is only one policy or two or three policies in the same company with one beneficiary, and no flexibility needed, it is better to have the insurance company, particularly if there is no discretion required, pay direct, but if the policies provide for many manners of payment it is advisable to have the fund concentrated in one hand, so that the money can be paid out under one instrument as the donor may direct.

### *Should Examine Policies*

IT is well, when a donor discusses the question of a trust, for the trust officer to examine his policies. It is possible that the provisions contained in some of the policies may be such that the trust company or bank may not want to handle them. Most of the insurance companies make few conditions in having the policies transferred to a trust company as beneficiary. Some companies require the trustee to exhibit a copy of trust agreement so it can be ascertained whether or not the beneficiaries under

the trust are those who have such an interest in the life of the insured as will entitle them to the proceeds. Other companies use a simple form, the policy payable to the trustee without any conditions or qualifications. If the policy is assigned to the trust company, it should not be necessary to exhibit the trust to the insurance company.

There are two ways in which policies can be placed in our hands: either by assignment or by a change of beneficiary. Of the two plans, it is best for the insurance policy to be made payable to the trust company directly as trustee.

We have found that the insurance men in St. Louis show a very fine spirit of cooperation. At first the insurance companies felt we were infringing upon their field. There was some opposition, but after the scheme was explained to them we find that the active progressive life insurance men have been bringing trust business to us.

We make it a practice not to recommend any insurance company to any of our clients. If the client is in doubt, we give a list of the reputable insurance companies having agencies in St. Louis.

A great many people come into the trust department expecting advice in regard to evading taxes. It is always bad policy to try to advise any one how to evade taxes. When the matter of investing the insurance proceeds is discussed, we inform the prospects that we will invest the proceeds of their insurance policies in securities obtained at the best income rate possible, considering the safety of the investment. The insurance companies guarantee three and one-half per cent and I understand they paid 4.56 per cent last year. The Trust Company Research Committee ascertained, after a country-wide inquiry, that the trust companies paid to the beneficiaries of their trusts last year something like 5.51 per cent. However, we make it a point never to stress the feature of income return for the reason that in the particular case there may be a question of local taxation which will cut the income, or there may be a question of income tax which a trust may be required to pay but which the beneficiaries of an insurance policy may not have to pay. We stress service, we stress the fact that if money is held in trust in a company in another city by people with whom your wife or children have no contact, people whom they do not know, they may have to go to that city to discuss their problems with them, while we are in St. Louis, an institution in which a banking home can be established for members of the family, where the family can discuss their various problems and their needs, and further that the benefits of the association are self evident, demonstrating the advisability of creating a trust with the local institution.

We have had some trouble in getting the insurance companies to approve some of our forms and some of our practices, but I am happy to say that nearly all of the larger companies have ironed out all of those difficulties. It will be found now that the executives of the larger insurance companies of the country are advising their agents to work with the trust companies for the great common purpose of conserving the proceeds of life insurance.



## New Membership Certificates

MEMBERS of the American Bankers Association will on September 1 receive from the Association headquarters in New York City certificates of membership for the fiscal year ending August 31, 1926, signed by the Executive Manager, F. N. Shepherd, and countersigned by the Treasurer, J. Elwood Cox.

With the certificate there will go to each member a bronze insert showing that dues have been paid and this insert should be placed in the sign of the Association held by members and displayed in a prominent position over the paying teller's window. The sign is a protection for it serves as a warning to those who might otherwise attempt a hold-up or commit other crimes.

Approximately 22,000 members are enrolled, comprising national and state banks, also trust companies and private bankers, which is positive evidence that membership in the American Bankers Association is valued.

The Constitution and By-Laws of the Association provide that membership dues shall be paid in advance as of September 1, the beginning of the fiscal year. To avoid unnecessary correspondence and delay, members are urged to honor the certificates when presented. The schedule of dues for banks and trust companies (based on capital and surplus) follows:

| | | | |
|---|---|---|---|
| | less than | $25,000 | $15.00 |
| $25,000 | and less than | 100,000 | 20.00 |
| 100,000 | and less than | 250,000 | 35.00 |
| 250,000 | and less than | 500,000 | 50.00 |
| 500,000 | and less than | 750,000 | 75.00 |
| 750,000 | and less than | 1,000,000 | 100.00 |
| 1,000,000 | and less than | 2,500,000 | 150.00 |
| 2,500,000 | and less than | 5,000,000 | 200.00 |
| 5,000,000 | and less than | 10,000,000 | 250.00 |
| 10,000,000 | and less than | 15,000,000 | 300.00 |
| 15,000,000 | and less than | 20,000,000 | 350.00 |
| 20,000,000 | and less than | 25,000,000 | 400.00 |
| 25,000,000 | and less than | 30,000,000 | 450.00 |
| 30,000,000 | and less than | 35,000,000 | 500.00 |
| 35,000,000 | and less than | 40,000,000 | 550.00 |
| 40,000,000 | and less than | 45,000,000 | 600.00 |
| 45,000,000 | and less than | 50,000,000 | 650.00 |
| 50,000,000 | and less than | 55,000,000 | 700.00 |
| 55,000,000 | and less than | 60,000,000 | 750.00 |

Private Bankers and Banking Firms:
Dues are based on capital employed in their business per schedule above.

Dues for Branches of any of the Above Classes of Membership:
With separate capital, same as schedule: without separate capital, specifically set aside therefor ..................$15.00
Dues for mutual and co-operative savings banks or institutions without capital are based on their surplus or reserve fund, as per table above.

Dues for Canadian Institutions:
Based on above schedule with the exception that $250.00 is the maximum fee.

*Please remit direct to the American Exchange-Pacific National Bank, New York, in New York funds, making your check payable to that institution.*

## The Membership Quota

IN the campaign for new members to the American Bankers Association, two districts have already exceeded their quotas. Since April 7, the drive has brought in 327 new members. The relative standing of the members of the committee on the results reported about the middle of July is as follows:

| District | Chairman | Per Cent |
|---|---|---|
| 1st | C. Howard Marfield | 126.0 |
| 2nd | Clark G. Mitchell | 115.0 |
| 3rd | F. J. Belcher, Jr. | 78.3 |
| 4th | Ben Johnson | 52.1 |
| 5th | Hal Y. Lemon | 37.5 |
| 6th | C. A. Faircloth | 33.3 |
| 7th | J. C. Utterback | 30.1 |
| 8th | H. Lane Young | 29.7 |
| 9th | Wirt Wright | 18.9 |
| 10th | J. U. Lademan | 17.0 |
| 11th | Geo. H. Gutru | 16.9 |
| 12th | C. H. Bender | 16.8 |
| 13th | F. W. Denio | 14.8 |

## Atlantic City

(*Continued from page 70*)

The program for the Fifty-first annual convention is being rounded out but will not be announced until the September issue. The appearance of some of the most prominent men in the American business and public life is already assured, while the programs of the divisional conferences are being arranged with the view of presenting the livest banking subjects for consideration by those who have been the most intense students of them in their various phases.

ONE of the most keenly awaited reports is that which will be filed by the special sub-committee appointed by the Economic Policy Commission to consider the problems pertaining to the Federal Reserve System. Inasmuch as it seems that Congress will pass upon important new banking legislation at the forthcoming session, which seeks to amend the Federal Reserve Act in many respects, the report of this group of experienced and widely known bankers doubtless will deal with various phases of the question that affects the interests of all branches of American finance. The time is approaching when Congress must pass upon the renewal of the charter for the Federal Reserve Banks and while bankers are virtually unanimous in the opinion that the Federal Reserve System must be preserved they differ somewhat on the details as to how the reserve banks should function. The McFadden bill, with the Hull amendments curbing branch banking, was endorsed at the last general convention of the Association. While this measure passed the House of Representatives, it was not brought to a vote in the Senate. Congress must take it up anew at the next session.

The convention thus comes at an interesting time when the expression of the views of the American bankers doubtless will have their helpful effect in aiding in the guidance of those who are charged with making the nation's laws.

THE ready accessibility of the convention city to the principal centers, the timeliness of the program's topics and the side attractions of Atlantic City will serve to attract several thousands of delegates. The hotel facilities of the resort are ample to accommodate in comfort almost any number. Reduced rates have been offered by many railroads, as announced in the July issue of the JOURNAL. Special trains are to be run from several of the largest centers to transport bankers to Atlantic City.

At the 1922 convention, the total registration was about 4500 and it is confidently expected that the attendance this year will surpass that figure, since this year rounds out a half century of the Association and is to be appropriately observed.

The entertainment program will include a yachting party for the ladies, a grand ball, a number of musical concerts and other divertisements. There will be the annual golf tournament for the followers of the game among the bankers, with the usual award of prizes to the winners. Other features of entertainment will be provided as well.

## Out of Debt

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payment is made burdensome to the country," he states. "It is argued that the present generation should not pay, but should pass the debt on to a later generation. Taking the people as a whole, there is nothing in this argument. The money represented by the debt was spent for the war. The evidence of the debt, the bonds, are all held in this country. If the first generation passed on to the second generation the burden of paying the debt at the same time the second generation must inherit the bonds representing the debt, so the second generation would receive both a liability and its equivalent asset. No net burden would pass.

"While, taking the people as a whole, it is immaterial when the debt is paid, still, as between different classes of people, the investing class holding the bonds and the producing class from whom a larger part of our taxes are collected, inequality may exist. We should not tax too heavily the producers to pay the security holders. It is for this reason that we have sought a balance between debt reduction and tax reduction. The surplus of receipts over expenditures in the past five years has accounted for over a third of the total reduction. Annual surplus is the margin available and which should be devoted to tax reduction.

### *Orderly Retirement to Continue*

"THERE are, however, certain factors which must continue the orderly retirement of the debt. Roughly, $20,000,000,000 of war debt is represented one-half by money spent by America in the war and one-half by money loaned to the Allies. A sinking fund based on 2½ per cent of the $10,000,000,000 used domestically was established in 1919 and it was intended that the $10,000,000,000 loaned abroad should be taken care of by repayment of the loans by the foreign brrowers. Here we have a twofold arrangement for retirement of the war debt. In the public debt structure one obligation has no distinction over another. Each is based solely on the credit of the United States irrespective of rate of interest, date, or maturity. It is one debt.

"We may look at the situation, therefore, as if a company had mortgaged several pieces of property and, in the mortgage, had covenanted for a sinking fund each year and for the use of the proceeds of any property sold from under the mortgage toward retirement of the debt. The mortgage bondholder has a contract, legally binding on the mortgagor, that these covenants be performed. In like manner the government bondholder has a contract, morally binding on the United States, since to violate it would be partial repudiation, that the sinking fund will be continued in accordance with its terms and that repayments of foreign loans will go to decrease the debt which was incurred for their creation. Within the limits thus placed sound policy now requires that any surplus in government receipts over expenditures should be distributed, just as the profits of any other mutual organization are distributed, among its members—the taxpayers—through a reduction in their forced contributions to the state.

"I wish to emphasize that the retirement

of the public debt has actually aided future relief from taxation. This is an accumulative aid, growing more important with time. Interest is roughly a third of government expenditures outside of debt retirement. In 1921, this interest was a billion dollars; in the year just closing it will be about $870,000,000, a saving of $130,000,000 a year. All of this saving has not taken place, because there are less bonds outstanding upon which interest must be paid, but a very substantial part is accountable because, through improved credit, we have had to pay less for money borrowed. Of the $130,000,000 saved, over $30,000,000 represents the decrease in the average rate of interest in 1925 under that paid in 1921.

"It is true this reduction in average interest rate does not seem large in itself, but spread over such an enormous total of debt it gives, as you can see, substantial results. The reduction in average rate is brought about by refunding only a part of the total debt on a lower interest basis, and the full effect of this improvement in credit is not now felt. If we had been able to refund the entire debt on the basis of what our refunding during the past two years actually cost us, we would have saved an additional $85,000,000. This benefit will come in the future as further refunding is practicable."

### Lower Interest Rates in the Near Future

THE treasury is going to have a chance to get a substantial portion of the debt on a lower interest basis within the next few years if rates do not rise above the present levels.

Within three and a half years, half of the total debt matures or may be called for payment. It is almost unthinkable that the government will be able to retire more than two or three billions of it, but the remainder can be refunded. When these operations are conducted, the treasury expects to lighten the burden on the taxpayers by paying less for the money it borrows. Within nine years, nearly 95 per cent of all the debt may be reached for refunding. Perhaps, this can be done on better terms. For instance, the treasury paid an average rate of 4.446 per cent on the $2,307,041,400 of the public debt that matured during the fiscal year of 1925. It floated its new issues at an average rate of 3.557 per cent, cutting down the annual interest charge by more than $16,000,000.

In dealing with such a tremendous sum as twenty billion dollars, a fraction of a per cent runs into millions of dollars. If the whole debt were on a loan basis just one-half of 1 per cent lower, the United States would have $102,500,000 more to spend on other things.

### Smaller Reduction Expected

THE indications are that the pace at which debt reduction has been proceeding is going to slow up during the next few years, unless the European debtor nations pay.

The Coolidge administration is committed to a further reduction in income tax rates that probably will leave a smaller margin of income over expenditures.

A good part of the billion dollars in the surplus of past years was due to the sale of war surplus and the liquidation of war-time enterprises. The government realized $275,856,765 since 1922 through sales of surplus war supplies and other properties. When it sold car trust certificates that the railroads gave the government to reimburse it for equipment purchased during the years that the carriers were under Federal control, this money was turned into the treasury. During the past four years the government realized $337,582,204 from railroad securities and $101,886,207 from other securities than those representing foreign debts. Some of the money that the United States turned over to the war-time corporations to provide them with operating capital was returned. The collection of back taxes enabled the treasury to realize unexpected millions from this source. Had it not been for the funds resulting chiefly from the liquidation of the various war-time activities, it is obvious that there could have been no such debt reduction.

The surplus, year by year, has been: 1921, $86,723,771; 1922, $313,801,651; 1923, $309,657,460; 1924, $505,366,986; 1925, $250,505,238.

The big surplus of 1924 formed the basis of the treasury's recommendations for the last reduction in taxes, Secretary Mellon taking the stand that the nation had more to gain by a lightening of the tax burden than business and private credit would advantage by cutting down the national debt.

### Views of Secretary Mellon

THERE has never been any doubt about where Secretary Mellon stands. He has stated that a nation that does not follow a policy of paying its debts but lets them accumulate, may be compared with the individual who fails to pay his debts. The public debt he regards as a mortgage upon the national wealth and unless the nation follows the course of paying off the lien, it will find it becoming more burdensome.

The financial world has a particular interest in rapid debt retirement. As the government retires its securities, the funds are released for private enterprise and for investment purposes. When the public credit is strong, this strength is reflected in private credit. It is Mr. Mellon's contention that tax collections for the purpose of debt retirements do not lessen the country's capital supply because the funds are put back into productive channels and the public at large benefits because the interest charge is lessened.

"To the extent that tax collections for debt-paying purposes promote saving and reduce unnecessary expenditures, and to the extent that a debt-paying program promotes government economy, the net result is an actual increase in the country's capital supply and general welfare," he asserts. "On the other hand, if a business or an individual is forced to liquidate his obligations too rapidly, the result is needless sacrifice and loss. But sound governmental finance, including a rigid debt-paying policy, is absolutely indispensable to the best interests of business and private finance."

## A. I. B. Convention

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National Bank, of Richmond, Va., advised. The borrowing banks and the weaker ones should be checked more frequently. The best time to check commercial accounts is just after the receipt of annual statements, he said, so that when the new statement is being analyzed, the file may be brought up to date both by checking and by securing new agency reports.

Banks are gradually bringing into general use the operating statement and a surplus account statement as well as a balance sheet to obtain a true picture of a company's condition, Harold W. Scott, of the Bank of North America & Trust Company, of Philadelphia, stated. The operating statement primarily furnishes sales volume which is necessary to test the quality of the assets, he said. The surplus account is useful in that it shows all transactions affecting the net worth, other than new capital sold at par. From the balance sheet and its tributary reports, it is possible to obtain a fairly accurate opinion of the real value of the assets and, from a series of statements, the trend of the business.

At the time a commercial account is opened, the bank should obtain and check the credit information rather than wait until an application is made for a loan, R. Jesse Chaney, of the Commercial National Bank, of Washington, D. C., declared. The accounts that give the average bank the most concern are not those which are solicited but those which come in of their own volition. The credit department should ascertain where the account is now carried, whether satisfactory balances are maintained and loan accommodations extended and, if so, how secured. It should also be ascertained how the trade bills are being paid.

The system installed by the credit department of the Hibernia Bank & Trust Company to accelerate the flow of information from the credit department to the loaning officers and back to the department was described by A. H. Bittenbring, of New Orleans. After the statements have been analyzed, an analysis sheet is prepared, commenting briefly on the outstanding facts as shown by the statement, and containing a brief synopsis of the information obtained from all sources. The file is circulated among the loaning officers, who may offer any pertinent comment on the credit department's recommendations on the analysis sheet. It has been found that where a particular officer handles a particular account for some time, his comments are quite valuable, especially if he should be absent and another officer had to act in his place.

If half as much time was spent in checking up the individual instead of the accuracy of figures given in statements, banks would be establishing the basis of their credits on a more constructive and helpful background, Caspar W. Clarke, cashier of the National Bank of Commerce, Seattle, said, in stressing the importance of the individual in judging a credit risk.

### *Financing Foreign Trade*

THE methods employed in the general run of import and export transactions were discussed by Harvey E. Emmart, of the Baltimore Trust Company, of Baltimore, who insisted that a foreign department should not be established with the idea that it should be of service to the bank's regular patrons but rather to all first class concerns engaged in foreign trade.

Where there is a sufficiently large number of foreign nationals of any country, a bank may enjoy a profit through the sale of checks and money orders to them, Irving W. Lonergan, of the First National Bank of St. Louis, said, in discussing foreign exchange for the resident foreigner. Direct accounts may be carried abroad when there is sufficient volume, as this adds greatly to the efficiency of the service and to the prestige of the bank, he said.

A. S. Hillyer, Chief of the Commercial Intelligence Division of the Bureau of Foreign and Domestic Commerce, recited how the Department of Commerce was seeking to make exporting safer for American firms by supplying them with information concerning the reliability of foreign dealers. The division supplies confidential data relative to foreign firms or individuals said to resort to disreputable business practices and keeps up with firms that go into liquidation or bankruptcy. The Department now has reports on 200,000 foreign firms and its file is growing at the rate of 800 reports weekly. This data is digested and placed in the files in card form and made available to American firms without service charge.

From 65 to 70 per cent of all merchandise shipped overseas from Chicago, exclusive of grain, is being shipped under through bills of lading, Richard J. Desmond, of the First National Bank of Chicago, said, in discussing their growing use. He pointed out, however, that importers abroad had raised objections to the through bill of lading because if the ocean carrier contracts with the foreign agent of a railroad company to transport the goods over a particular road, extra expense and delay may be caused to the consignee by having the merchandise carried by a railroad whose point of unloading is a considerable distance from the consignee's factory. This objection, Mr. Desmond pointed out, might be

readily overcome if the buyer would instruct the exporter abroad regarding the routing of shipment, giving him details as to the port of entry and transference to a particular inland carrier. He stressed the need in foreign trade for a uniform international through bill of lading.

In European countries where problems of finance and commerce have been handled as matters of national politics, normal recovery has been seriously delayed, David B. Bunim, secretary of the Commerce and Marine Commission of the American Bankers Association, said.

## Savings Bank Problems

THE first savings banks in the United States were established without any idea of private gain, Robert F. Nutting, assistant treasurer of the Home Savings Bank of Boston, said, in presenting the story of savings banking. He traced the development of the savings bank until the present, when there are 39,000,000 individual depositors. Until 1890, they had no competition in this field, he recited, but from that date on national banks, state banks and trust companies have sought to obtain savings accounts. Referring to the fact that some of the western states have enacted laws requiring the segregation of savings activities, Mr. Nutting said that there had been talk of national banks being obliged to do the same but the movement has never advanced to this stage. He deplored the condition where banks find themselves unable to buy the bonds of great public utility corporations as legal investments, because they are not included in the list of "legals."

The ideal of the savings bank of today is the fulfillment of its duty toward the people and a community responsibility, J. A. Seaborg of the United States Savings Bank of New York City, said. "Our first duty is to intelligently inform the people of the meaning and purpose of the savings bank and to explain how savings can be carried on by giving practical and definite suggestions. We can also explain what accumulated savings can do in providing means to meet emergencies and in gradually making possible the enjoyment of the better things of life. The appeal should be positive, cheerful and stimulating and not necessarily always punctuated by dollar marks."

Education in fundamentals of investments is a type of service that is particularly within the province of a savings bank, Ernest L. Johnson, of the Harris Trust and Savings Bank of Chicago, said. The savings banker should stress the difference between an investment and a speculation and let the public know the hazards in speculative enterprises. Mr. Johnson urged savings banks to maintain and conduct a distinct department for the selling and handling of investments. Larger profits in the handling of certain securities should be eschewed for the sale of securities that are founded on security, consistent income and marketability, he counseled.

Every state should provide a scientific savings bank law such as that enacted by Oregon and California, H. C. Bryant, of the Washington Mutual Savings Bank, of Seattle, said. These states require all banking institutions doing a savings bank business to allocate a portion of their capital and surplus to the savings departments, no commingling of capital, surplus or deposits with the commercial department being permitted. The adoption of these departmental banking laws would provide greater security for savings depositors, he asserted.

Advocating home mortgage loans as an outlet for the major part of a savings bank's funds, Mr. Bryant expressed the opinion that from 60 to 70 per cent of a bank's deposits might be safely placed in first mortgages. Cash and secondary cash reserves, consisting of U. S. obligations and bankers' acceptances, should take from 22 to 25 per cent of the deposits while the balance of 8 per cent might be safely placed in other securities. He cited the estimate that the withdrawal lines in bank runs will spend themselves before 12 per cent has been paid out.

Discussing the attitude of the bank toward its employees, James K. Steuart, of the Savings Bank of Baltimore, urged greater care in the selection of new clerical material with a probationary period to avoid permanent misfits. Every position in the institution should as nearly as possible be carefully graded and accorded a minimum and a maximum salary, the range to be covered as quickly as the development of the individual will allow. The giving of bonuses indiscriminately does not seem to be an altogether constructive practice, he said. It would be better, after having shown members of the bank personnel various ways in which they might improve themselves and their usefulness, to reward them substantially with a bonus for showing satisfactory progress toward improvement over a period of time.

## Insured Savings Plan

THE application of life insurance to the thrift account brings with it the urge of compulsory payments which spur savers on to their goal, A. C. Robinson, president of the Peoples Savings and Trust Company of Pittsburgh, said, in unfolding the details of the insured savings plan. The results of the banks' experience with insured savings accounts show a remarkable decrease in mortality as compared with regular savings accounts and a steady growth in balances, Mr. Robinson said. Asking the question why the plan's adoption has not been general, he admitted that it was a sales proposition and expensive business to secure.

"I have repeatedly advised against small banks going into the insured savings business," Mr. Robinson said, "unless they are prepared to spend a sum of money for sales promotion far out of line with immediate results. It is expensive to set up mechanically, as new forms and filing devices are required and it is expensive to secure acceptance of the idea. It is essentially a big bank proposition."

The plan combines the savings account with life insurance, which guarantees that should the saver die before reaching his objective the full amount will be paid. The insurance is written on the decreasing term plan but the first year's protection on $1,000 amounts to only $12.21 for a 35 year old man. The cost of the year's insurance is paid in advance. Accounts may be taken out up to $15,000, but physical examination is required on contracts over $3,000. The life insurance company provides a rather superficial physical inspection on the smaller units.

A personal service department cannot fulfill the purpose expected of it unless it is fully recognized as an essentially important part of the bank, Miss Adeline Evans Leiser, of the Bowery Savings Bank of New York, said. It should be a center for the distribution of the simple economic facts that apply to daily living. As approximately 90 per cent of all retail spending is directed by women, banks can well afford a service that will enable women properly to handle their personal finances, Miss Leiser insisted.

## In the Trust Field

IN discussing agency, custodian and safekeeping accounts, J. E. McGuigan, of the Humboldt Bank of San Francisco, said that while this plan relieved the owner of property from the many details attendant upon such ownership, it involved much liability on the part of the bank. When safekeeping and agency accounts are accepted, a very necessary precaution is to obtain definite instructions, Mr. McGuigan advised. Banks should protect themselves from risks which they do not intend to assume. The practice of having senior executives in charge of other departments of the banks accepting business and fixing fees that are lower than the standard scale was condemned. "It is just as unfair to ask the trust department to accept, without compensation, the custody of property belonging to a good

customer of the commercial department as it would be for us to ask that department to make a loan to one of our good customers without any interest charge," he remarked. "There is just as much reason for the trust officer to specify that loans will be made to his good customers at one half the current interest rate as there is for the cashier or vice-president to agree to extend some trust department service at one half the usual fees."

A. B. Hussander, of the Illinois Merchants Trust Company of Chicago, discussed in detail the fundamentals of internal operation, stressing the importance of the trust company personnel, whether through letter or personal contact or through intermediate channels, making the right impression by the manner in which they do a bit of work. Full and complete records should be kept, he said, as the trust departments may be called upon at any time to go back to the beginning of any account. For filing securities, the most efficient method is to file bond and stock certificates flat, so that it is not necessary to unfold bonds to cut coupons nor stock certificates to get information, Mr. Hussander said.

### *The Handling of Escrows*

AN extended talk on the handling of escrows, a practice which has grown to considerable proportions in California and is being extended to other parts of the United States, was delivered by John C. Campbell, of the Pacific-Southwest Trust and Savings Bank, of Los Angeles.

Some of the more technical phases of banking were treated in the other conferences. S. A. Wardell, general auditor of the Federal Reserve Bank of Kansas City, led the conference on audits and examinations. Melvin H. Thies, of the Union Trust Company of Chicago, directed the conference on checks and collections, while Clarence R. Chaney, of the Northwestern National Bank of Minneapolis, led the conference on credits.

## Millions Saved

(*Continued from page* 79)

not separate these screenings at the thresher, he often buys them for feed from the elevator or mill that has separated them, and in addition pays for or supplies the cost of hauling from and back to the farm. Or else he pays high prices for them in a ready-mixed feed. Moreover, on an average, the Northwest farmers who clean their wheat before marketing gain more than five cents a bushel for the wheat they sell.

In one recent year it was estimated that in North Dakota, South Dakota, Minnesota and Montana more than 3,500,000 lambs could have been fed with the wheat screenings from that year's wheat crop, and these screenings could have formed the entire grain ration. Screenings are an undesirable farm product, but once produced they should not become waste but should be turned to valuable account by feeding them to livestock.



In the Pacific Northwest, where wheat is largely raised on semi-arid lands, the serious wheat disease known as bunt or stinking smut has constantly increased in spite of all the efforts made to check it. This greatly complicates the question of dockage. Smut of wheat is a fungus growth which infests the growing grain. When the wheat ripens, instead of producing a head full of wheat kernels, each kernel in the affected heads has become a ball of fine dust-like spores. These smut balls are so similar in shape and size to wheat kernels that they are not readily removed from wheat. The balls vary in texture from a rather hard, caked consistency to a very light, fluffy powder.

Tremendous loss is caused by smut dockage alone. Estimates based on reliable figures showed that the assessed smut dockage in wheat going into Portland, Ore., during one recent crop year amounted to approximately 237,107 bushels of sixty pounds each. Figured at a farm value of wheat of 75 cents a bushel, this meant a loss of approximately $177,830. This amount does not represent the total loss to the farmer resulting from smut. There are charges for freight, insurance, interest, storage, cleaning, handling, increased cost of threshing and smutting discount or charge for cleaning.

Even before that comes the enormous loss through reduction in yield per acre, which is the greatest source of loss to farmers from smut. They are less conscious of this loss than of other losses as they never see this lost wheat. They never know what their yields would have been, had it not been for smut. It has been conservatively figured that if, in any field, all of the heads that produce smut had produced wheat, there would have been an additional ten bushels of wheat for every bushel of assessed smut dockage. Therefore, it is reasonable to conclude that in reduced yield the farmers who raised the wheat that came into Portland that year probably lost in reduced yield about ten times what they lost in smut dockage figures as wheat, or about $1,778,300.

### *Smut Losses Total Millions*

LOSSES from the other items are more difficult to estimate, but the expense of cleaning this smutty wheat is estimated to have been $372,348, and it is believed that the other losses brought the total loss on this wheat up to more than $2,328,480. The same line of figuring brings an estimated total loss for the Pacific Northwest

for that crop year of $7,499,628—more than $7,000,000 lost by the farmers in one region during one crop year from one cause. If the wheat is valued at $1 a bushel at the farm, the total loss in these states figures $10,-000,000.

The hard smut balls persist in the wheat, as balls, because of their resistance to crushing and their similarity to wheat. The soft smut balls, readily crushed in the natural handling of the wheat, release millions of dark-colored microscopic seeds or spores, which give the wheat a dingy black appearance. When once thoroughly mixed with the wheat this smut dust cannot be removed by the ordinary dockage-removing machinery. Special machinery is required for the purpose.

### *Smut Cleaner Invented*

FOR smut removal in the Pacific Northwest the Department has developed a special type of cleaner called an aspirator. The aspirator does not remove all of the smut from the grain, but removes enough to increase the market value of the wheat materially. Beside removing most of the smut, the aspirator takes out practically all of the light-weight foreign seeds, chaff, etc. A public service patent for the aspirator has been granted to E. N. Bates, the inventor, by the United States Patent Office to protect public interest. This permits any citizen or firm of the United States to build or use the patented article without paying a royalty to any person or firm.

In operation the Bates aspirator, as it is called, is installed on the thresher or on a combine, and by its use the cleaning for smut becomes a part of the threshing operation. It works on the principle of suction. It draws a current of air through the falling grain. The passing of the air through the grain carries with it all of the loose dust and many of the weed seeds and foreign particles that are lighter or very much smaller than the grain kernels.

Use of several of these aspirators through three seasons has demonstrated them to be relatively inexpensive, light, flexible and adaptable in arrangement and effective in results. The aspirator does not clog, and it requires only a moderate amount of power.

Plans and specifications for this aspirator and directions for its installation on thresher or combine are supplied to any manufacturer, thresherman or farmer on application. Threshermen and farmers can have the aspirator and its dockage collector built from these specifications, by any tinner, and sheet metal companies in the larger cities are selling the equipment.

Sooner or later the spring wheat region must raise clean wheat, and all friends of the region are determined it shall be sooner. Meanwhile the job of cleaning the wheat inexpensively at or near the farm is one that calls for the best efforts of every agency even indirectly involved. Millions can be saved by cleaning wheat, and the benefits of this saving can be widely distributed.